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AUGUST 1978

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Henry Hazlitt

ONE CURRENCY FOR THE WORLD?

"Needed: A Common World Currency."

So asserts the title of an article in the May issue of *PHP*. *PHP* is a monthly magazine published in Tokyo, by a dominantly Japanese editorial staff. It is in English, however, and aimed at a worldwide audience. The title initials stand for "Peace, Happiness and Prosperity." The author of the article is Konosuke Matsushita, founder of the international electric and home appliance industry, Matsushita Electric.

The hope that Mr. Matsushita expresses is one that has been voiced by reformers for more than a century. His arguments for it are persuasive. He refers to the wild fluctuations in international exchange rates in the last few years. He points out that at the beginning of 1977 it took 290 yen to buy a dollar, but by the end of the year only 240. He reminds his readers that in December 1971 The Group of Ten countries met in Washington to set up a new international currency system, known as the "Smithsonian" agreement, hailed at the time as "the most important monetary agreement in history"—and that it broke down in a year or so.

After that the world entered a "floating currency" era. But this means that every day the exchange rate of every national currency fluctuates in terms of every other. It means that no one can foresee what any given currency will be worth in terms of any other a year from now, or even tomorrow. And so it means that every man engaged in import or export trade, or in any international business whatever, is forced to some

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. The most recent of his numerous books is *The Inflation Crisis, and How to Resolve It*.

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extent to become a gambler. Deploring all this, Mr. Matsushita concludes:

> We need to integrate the wide variety of currencies we have now. In other words, I suggest we agree on the use of one currency that will be common in all the countries of the world. . . . I am fully aware of the numerous problems that would be involved, such as national pride, differences in economic level and so on. However, if we want to continue our community life on this planet, we're going to have to integrate our currencies at the earliest possible date. . . .
>
> I suggest the United Nations or the International Monetary Fund take up the problem, seek to overcome the difficulties which lie in the way by eliciting the cooperation, effort and wisdom of every country, and therefore achieve an integration of the world's currencies for the peace, happiness and prosperity of the world.

I find Mr. Matsushita's article encouraging in one respect but disheartening in others. It is encouraging as a sign that leading international businessmen are beginning to call for an end to the present intolerable chaos in the foreign exchange market, and are willing to set aside national prejudices to achieve a return to order. But it is disheartening as a sign that these businessmen—probably the majority of them—still do not understand the basic causes or suspect the basic cure for the world currency chaos.

Balance of Payments

Mr. Matsushita seems to think that the basic cause of the changes in the yen-dollar and other exchange rates was changes in the "balance of payments" between individual nations. He does not seem to realize that these wide fluctuations in the balance of payments were themselves in large part the result of different rates of inflation within the respective countries, and consequent shifts in the relationships between internal and external prices. His article nowhere mentions the enormous increase in the paper-money issuance of individual countries. And it nowhere mentions gold.

The truth is that the world once did have a common currency, in everything but name. It had such a currency roughly from the last third of the Nineteenth Century to 1914. It was known as the gold standard.

The majority of leading currencies were tied together not because they were tied to each other but because each of them was tied to gold. Each was directly convertible on demand into a specified weight of gold. The British pound was worth $4.86 because it was convertible into 4.86 times the weight of gold that the dollar was. The French franc was worth approximately 19.3 cents for similar reason.

True, as an international system this had a few shortcomings. It

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would have been far simpler and made calculation easier if each national currency had been made convertible into precisely the same weight of gold, or at least into a round relationship to other currencies—if, for example, the British pound had been convertible into exactly five times the weight of gold as the dollar, the dollar into exactly five times the weight of gold as the franc, and so on.

Fractional Reserve Gold Standard

A more serious shortcoming, however, is that the various national currencies were not on a full gold standard but only on what is known as a fractional reserve system. That is, the gold reserve they were obliged to keep was not equal to the full amount of their outstanding paper currency, but only to a fraction of it. And as time went on, and individual countries experienced no excessive runs on their gold supply, they yielded to the temptation to increase their credit and currency issues more and more. Their gold reserves, in consequence, tended to become a constantly smaller and more hazardous fraction of their credit and currency issue.

The fractional-reserve gold standard, moreover, even while it was preserved, suffered from a chronic defect. In good times, one country after another was tempted to expand its volume of money and credit. But when one country expanded faster than its neighbors, its internal prices increased relative to theirs. It became a better place to sell to and a poorer place to buy from. Its balance of trade (or payments) became "unfavorable." Its currency went to a discount on the foreign exchange market; and if that discount passed "the gold point," the country began to lose gold. To stop the outflow, it had to raise its interest rates and contract its issuance of credit and currency. It was this that caused the recurring business cycles, the alternation of boom and bust, that were considered by its critics to be inherent in capitalism itself.

Even the fractional gold standard was abandoned in Europe in 1914. The belligerents feared to lose their precious gold reserves, and in any case they wanted to be free to expand their currency and credit.

Gold Exchange Standard

When the war was over the world went back, not to the old gold standard, but to a "gold-exchange" standard. This was something quite different. The gold-exchange standard meant that the majority of countries, instead of keeping their currencies directly convertible into gold, kept them convertible only into some "key currency"—for example, the British pound or the American dollar—which was sup-

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posed to be directly convertible into gold.

As formalized at Bretton Woods in 1944, the gold-exchange standard became still more attenuated. The other participating countries agreed only to keep their currencies pegged to the American dollar; the dollar alone was convertible into gold. But even then, dollars were not, as formerly, convertible by anybody who held them, but only by foreign central banks.

The effect of this relaxation of discipline, combined with the growth of the Keynesian ideology, was increasing and almost universal inflation. The American monetary managers, under successive Administrations, did not seem to have the slightest realization of the weight of responsibility they had assumed in agreeing to make the dollar the anchor currency for the world. They continued to inflate until, when other countries finally became more importunate in their demand for actual gold, President Nixon officially suspended gold payments on August 15, 1971.

A profound irony in Mr. Matsushita's proposals is that he wants to turn over the problem of curing the world's currency ills to the International Monetary Fund. But the International Monetary Fund *is* the problem. It was set up at Bretton Woods, chiefly under the leadership of Lord Keynes of England and Harry Dexter White of the United States, to make inflation and devaluation easier, smoother, and respectable. Instead of letting each country suffer the full consequences of its own inflation, the IMF used the stronger currencies to support the weaker. The long-run effect was only to weaken the stronger currencies. One of the Bretton Woods' objectives from the beginning was to "phase gold out of the system." One of the first steps in any real currency reform would be to dismantle the IMF.

Mr. Matsushita forgets that the meeting that drafted the Smithsonian agreement, to which he refers, came only three months after the United States suspended gold payments; that the Smithsonian agreement was thought necessary because of this suspension; and that it broke down so soon because gold convertibility was not restored. There is simply no substitute for gold convertibility.

No international organization can wave a magic wand, or draft a magic formula, that will bring a sound "world" currency. Each nation must bear full responsibility for its own currency. It can make it sound only by making it convertible into gold. And it can make and keep it convertible only by strictly and constantly limiting the quantity of that currency.

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Because of the dismal recent record of practically all countries in swindling their own citizens, the return to an honest convertible currency may now be difficult and remote. Individual nations can begin by strictly limiting any further expansion of their credit and currency issue. Meanwhile they can grant the right to their own citizens to coin gold privately and even to issue gold certificates against their coins.

When governments are ready themselves to return to a gold standard, it would be well if this time they kept a 100 per cent gold reserve behind their paper currency and so removed the expansionary temptations of a fractional-reserve system. And it would be an excellent thing, also, if their new currency unit were fixed as a definite round weight of gold, say a gram, and were called simply a goldgram—instead of a dollar, franc, mark, peso or what not—and if at least the leading countries could agree on the same gold weight for their unit. Then the world would really have, for all practical purposes, the "single" and common currency that Mr. Matsushita would so much like to see.

Bettina Bien Greaves

Inflation—What It Is and What It Does

WHENEVER we act, we want our actions to be successful. It always helps to take stock of the past and to try to foresee the future. As all of us are buyers of some things and sellers of others, the more we can know about what is likely to happen to prices the better.

Nowadays, more and more people complain of the higher and higher prices asked for practically all the things they want to buy and they expect prices to keep on rising further. Many say these higher prices are "inflation." Then, because most producers and sellers of goods and services raise their prices fre-

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quently, people blame *them* for "inflation." They blame businessmen who are asking higher prices, labor unions who obtain higher wages for their members, the international oil cartel (OPEC) when it raises the price of petroleum, farmers who ask more for beef, manufacturers who raise steel prices which add to the costs of producing many other items. Then, when the higher prices of U.S. manufactured goods discourage foreigners from buying, they blame the declining "balance of payments" due to fewer sales abroad. The list of culprits blamed for "inflation" is almost as long as the number of persons offering goods on the market.

Usually ignored in these discussions is the one thing all prices have in common—the fact that they are expressed in dollars. Because prices are dollar prices, it would seem obvious that the number of dollars must have something to do with *higher* prices and "inflation."

Certainly people with more money will be able to spend more than those with less. They will generally be willing—and able—to offer higher prices for any particular item they want. Thus, when higher prices are not only being asked, but are actually being paid, for many or most goods and services on the market, it must mean that many people have more dollars to spend. Therefore, an increase in the number of dollars may be the real culprit to blame for higher prices. Perhaps the increase in the quantity of money itself is the *real* "inflation." Let us look at the situation.

Do People Have More Dollars?

In this country, only the national government, the Federal Reserve, and the banking system are now legally permitted to create U.S. dollars. If you and I were to manufacture dollar bills, this would be "counterfeiting." But the U.S. government and the banks may add to the money stock without fear of penalty. And they do just that. This expansion is carried out primarily by monetizing Federal debt, by Federal Reserve "open market operations" and by credit expansion through commercial bank loans to private borrowers. In other words, the Federal Reserve System, with the aid and support of the U.S. government, is responsible for the number of dollars in existence.

The official estimate of U.S. dollars is reported regularly by the Federal Reserve. Their figures show that the stock of money has been increased tremendously in recent decades, especially since World War II. It was almost doubled during the War—from about $64.5 billion at the end of 1941 to $132.5 billion by the end of 1945. Since then the number of U.S. dollars has mushroomed—during Republican and Democratic

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administrations alike. From a figure of $620 billion in January 1975, the money stock (currency plus private checking deposits plus commercial time and savings deposits) rose to $806 billion at the end of 1977. With so many new dollars being created is it any wonder that many people are spending more than ever before? As a matter of fact, the increase in the number of dollars *is* inflation. It is this increase that accounts for the higher prices we all must pay for most of the things we buy.

Who Spends the Newly Created Dollars?

Who spends the newly created dollars? And for what? That depends on the choices and actions of those who receive them—(a) the U.S. government, (b) the banks expanding credit to make loans and (c) those who receive the funds created. When the U.S. government is the beneficiary, the newly created dollars go into the general "pot" and are drawn on for various expenses. When the new dollars are issued by the banks in the form of increased loans, the banks determine to whom they are lent and each borrower decides how to use his borrowed money.

From October 1, 1976, through September 30, 1977, the federal government spent $406.4 billion, only $358.3 billion of which were covered by its receipts from various sources—taxes, bonds sold to private persons, revenues paid for services rendered, and the like. Newly created money and/or credit made up the difference of $48.1 billion. When the government spends these newly created dollars, they go for its various programs. No one knows who is getting old dollars earned in production and paid to the government in taxes and who is getting new ones. The tax funds and the newly created money all look alike and all go into the same U.S. government "pot" from which it pays its expenses.

However, we can be sure that these additional dollars enable the federal government to spend more freely and to support more nonproducers than it otherwise could. And such federal programs, transferring wealth from producers and taxpayers to others who earn little or nothing themselves, have been growing fast. In 1975, Roy L. Ash, formerly director of the federal government's Office of Management and Budget, estimated that the U.S. government's "transfer payments" such as Social Security, payments to retired railroad and government employees, for Medicare and Medicaid, for welfare and social services, for food stamps, for veterans benefits and for the unemployed then comprised one-half of federal expenditures—up from only 20 per cent in 1950 (*Wall Street Journal,* July 28, 1975).

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Multiplying Effects

Not surprisingly, those who benefit under these government "transfer" programs are more willing and better able to pay higher dollar prices for the things they want than if they had to rely on their own resources. Their greater willingness to spend enables those who sell to them to ask for, and to receive, higher prices for these particular items. And these sellers *must* ask for more, if they want to stretch out their available supplies to meet the new demand from "transfer payment" recipients. Thus, the pressure toward higher prices increases. Then step by step, as the newly created money travels from one seller to another, it begins to affect other prices also.

When the new dollars come on the market in the form of bank loans to private consumers and business firms, the new borrowers are in a position to offer higher prices than before for whatever they want. Whether they spend their borrowed funds for consumers' goods, to hire workers, to purchase raw materials, to build factories, to expand or to start new production, those offering these particular goods or services on the market soon learn that these new borrowers will pay more than most previous customers had been ready to pay. Then they too begin to raise their asking prices in response to this newly stimulated demand. This helps to stretch out the available supplies to meet the increased demand. It also serves to spur producers to expand production or to embark on new projects to satisfy their new customers. Then again, step by step over time, as the newly created money is traded from person to person the higher prices paid by beneficiaries of this credit expansion influence other prices also.

Certain Consequences

What are the effects of creating new dollars? One effect of creating additional dollars, i.e., of inflation, as we have seen, is generally higher prices. However, they are only *one* effect. And they are not the most serious effect of inflation at that.

Increasing the number of dollars leads to shifts in wealth and income. As prices rise, more dollars are needed to buy things. The dollar's purchasing power goes down. As a result also the value of the dollar declines in the minds of people. Anyone who has been holding dollars and/or somebody's promise to pay dollars, suffers the loss of a part of their value. After a time when he spends his dollar savings, he encounters higher prices then prevailed when he was working and saving. Without going near his wallet, "piggy bank" or savings deposit, the inflaters have deprived him of a part of his wealth. The beneficiaries of the inflation and those who re-

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ceive unexpectedly higher prices for their goods and services gain "windfall profits" at the expense of the previous owners of dollars and assets fixed in dollars.

Increasing the number of dollars discourages saving. Certainly if new dollars are being created in large quantities, holding dollars offers no real assurance of having anything like the same purchasing power later. Why work hard and save if the purchasing power of any dollar saved is expected to fall? Better spend one's entire pay check, enjoy life today and hope for the best tomorrow.

Increasing dollars spent on "transfer payments" helps to keep non-producers dependent on government handouts. With respect to one form of "transfer payment," the great free market economist Ludwig von Mises (1881-1973) described unemployment relief in 1931 as "one link in the chain of causes which actually makes unemployment a long-term mass phenomenon." By paying people not to work, "transfer payments" help keep non-producers idle. Thus they tend to weaken self-respect and individual responsibility. At the same time, the cost of paying more and more non-producers becomes an increasingly heavy burden on those who continue working and producing. If the programs are not discontinued taxes must be increased again and again. Or government officials, who believe sincerely in the "need" for continuing "transfer payments," are likely to resort to further inflation.

Higher taxes and more inflation are serious drags on production. They distort prices, alter the pattern of production, shift wealth from savers to spenders, discourage savings and investment and hamper individual effort, initiative and ingenuity.

Destroys Hope for Security and Independence

Perhaps the most demoralizing effect of inflation, however, is that it discourages the desire and the hope of people for financial security and economic independence. It first destroys the value of the dollar so as to weaken the incentive to save. Then by holding out the hope of government-guaranteed security from retirement to the grave, government undermines one of the most powerful reasons to strive for financial independence. Self-respect, individual responsibility and family ties are bound to suffer. Thus, the end result of inflation is to dampen ambition, industry, the desire to save and invest, and pride in personal accomplishment and independence—all traits on which the future freedom and welfare of this country must rest.

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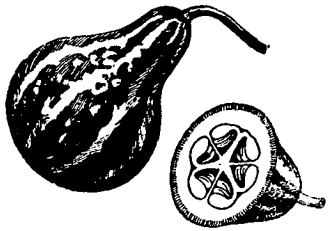
Ralph Bradford



Gourds and Dollars

WHEN Jonah sat in the shade of his heaven-sent vine he was no doubt unaware (as he was of some other important things) that a time would come when the fruit of his shade-vine would play an important, if transitory, role in the field of high finance.

The time, to be sure, was far down the centuries from Jonah's day, and did not arrive till 1807. The place was a steamy but beautiful little island of the Caribbean. By that time the original Caribs had long since perished, and were replaced by Europeans, especially by Spanish in the east and French in the west—and by black slaves all over the place.

Slavery, of course, is always hateful and cruel; but there are degrees to the degradation it imposes; and the planters who had settled in the Artibonite Plaine of Saint Domingues had brought its horrors to a new depth of savagery. At long last came the inevitable explosion. Suddenly the whole countryside was in flaming revolt.

And the slaves had able leaders: Ogé, Boukman, Chavannes, and others of lesser fame—all of whom were soon killed. And then came three compelling figures, former slaves all, whose names were to be inscribed, quite literally, in blood: Toussaint, Dessalines, Christophe. Toussaint was nicknamed L'Ouverture because as a general he always seemed able to "open" things up for victory—or for escape. His two great lieutenants were: Jean-Jacques Dessalines, unlettered and ferocious, but a great battle tactician; and Henry Christophe, a physical giant with the gift of leadership.

Christophe was born, it is believed, on the British island of St. Kitts, which at that time was still called Saint Christopher. This may account for his last name, and also for the fact that though he was French in speech and name and sen-

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timent, he always spelled his first name with the terminal English "y" instead of the French "i." Most likely he pronounced it Onree, but he spelled it Henry.

So much for the main actors. In a few swift and bloody years the dark drama of the tragic little black nation moved to its denouement. Toussaint was tricked, captured, and allowed to die miserably in a frigid French prison. Dessalines, after a grotesque brief masquerade as "Emperor," was murdered by his own people. That left the towering Christophe, who became head of state, and who finally made himself king. But the king business came later.

In 1807 this ex-slave stable boy and sometime waiter was named President of the newly-created Republic of Haiti. It was a moment of glory for the dignified man who, as a menial, had been slapped and treated to other indignities. But it was also a moment of great problems and sharp decisions.

For one thing, he headed a completely bankrupt government. The land had been laid waste by the ravages of the revolt against the landed proprietors, the revolution against France, the wars with the Spaniards on the eastern end of the island, and by their own internecine butcheries. There was no currency system, and Christophe had no money and no reserves of any kind. Needless to say, he could secure no credit abroad.

But Christophe was both a resourceful military leader and an able administrator. He could not read, but he knew the absolute necessity of a workable currency system. And he knew something else—namely, that the people he governed relied greatly on the homely gourd vine in their domestic economy, using its fruit, when dried and free of seeds and pulp, to make all kinds of household utensils—bottles, decanters, bowls, saucers, cups, even spoons and plates. The gourd, indeed, was about the nearest thing to a constant and general necessity in the simple life of the Haitian peasants. And the gourd utensils wore out quickly, broke easily, and had to be replaced often.

As Christophe ascended to power a green crop of gourds was ripening. So he issued an edict that all gourds were the property of the state. He sent out collectors to seize them, and in a short time they had brought in and "deposited" the year's crop at Cap Francois. That became the "reserve" in Christophe's "treasury," and he put an arbitrary value of 20 sous on each gourd, which established the ratio of five gourds to the French Franc. Then he waited a while.[1]

[1]See pages 108-9 of John Vandercook's excellent book, *Black Majesty,* Harpers, 1928.

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Gourds to Coffee to Gold

Soon the important coffee crop ripened. Coffee, along with cane for sugar, were the money crops of the island. But there was little sugar as yet, because the sugar mills had all been burned down in the wars. When the coffee beans were brought to market, Christophe bought them—and paid for them with the gourds he had previously expropriated, sometimes from the coffee growers themselves! Then he resold the coffee to foreign traders—for gold; and before long he had a substantial metal reserve and could put a gold-supported currency into circulation. As one result of this remarkable adventure into sophisticated governmental finance, after 170 years the unit of currency in Haiti is still called the *gourde*. More significantly, the Christophe technique had become a potent, if unrecognized and unacknowledged, fixture in that form of fiscal legerdemain known today as deficit financing.

Not many Americans raise gourds these days, and converted cucurbitaceous shells have little importance in our national economy. But the gourds of Christophe are symbolic of other possessions of ours that are systematically diverted from their normal use by a modern and deadly version of the Christophe process.

Those possessions are the dollars which we have earned and tried to save and invest, but which are taken away from us by the hidden and insidious seizures of debt-created inflation.

No analogy is here intended or implied between the Haitian treasury dilemma of 1807 and the multitudinous, mountainous, and world-wide profligacies of our own government. We are not here concerned with those balance-of-payment problems occasioned by our many international involvements, but with the simple arithmetic of a perpetually unbalanced national budget, and the resultant gnawing away of our substance by the steady and relentless debasement of our money in relation to the things we would purchase with it.

Henry Christophe seized the people's gourds to underwrite his money. That was the lawless procedure of a dictator, a piece of hard-fisted brigandage. But it was a one-time expedient to meet an emergency, and was never repeated. Even so, it was an illegal act of ruthless seizure. And yet . . .

And yet . . . as between two methods of expropriation, the one lawless but visible and not continued, the other legal but hidden and ruinously perpetuated—maybe there is something to be said, after all, for Christophe and his gourds! ⊕

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World in the Grip of an Idea

Clarence B. Carson

20. The United States: Business as an Instrument of Political Power

BRIDLES for horses are equipped with blinkers. They are flaps on both sides of the horse's head at the level of the eye. Horses are skittish animals, and the purpose of the blinkers is to shut off peripheral vision so that the horse will not attend to or be startled by something seen out of the corner of the eye.

Modern man is provided with blinkers, too. These are intellectual blinkers provided by the prevailing ideology. Under the sway of the idea that has the world in its grip, intellectuals blinker or blind us by determining what are the issues and in what terms they are to be discussed. Our intellectual vision is narrowed to take in only what we are supposed to see. True, there are those who persist in seeing more than is prescribed, but they are usually denied any forum from which to dramatize their viewpoint.

The prevailing ideology holds that "business," defined as an interest group, is in a continuing opposition to government intervention and

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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regulation. The antecedents of this notion are in ideology. Marxist ideology proclaimed that a class struggle was in progress. The main antagonists in this struggle were the capitalist class and the proletariat class. Gradualists have watered down this doctrine considerably, softened it at the edges, and made it less pronounced. But as they have instituted their reforms and regulations in the United States, they have clung to a subtle variation of the class struggle notion that capitalists are the enemy. On this view, businessmen favor *laissez faire* and oppose government intervention, while government intervenes on behalf of "the people" to hold obstreperous businessmen in line. These are the terms in which the issues must be discussed, if intellectual fashion is to be observed.

The Marxist notion that capitalists constitute a class vigorously defending their interests against all challengers is about as valid as would be the notion that all females eligible for marriage constitute a class pursuing the common aim of marriage. The fact is that eligible females are in competition with one another for the available swains, if matrimony is their object. In their own way, businessmen are in competition with one another. They compete for customers, for materials, for workers, and for whatever they conceive would be advantageous to them. True, some businessmen oppose regulation as a matter of principle; and a goodly number oppose regulations when it is expedient to do so. It is also the case that businessmen are more apt to denounce regulation than are, say, journalists or teachers—regulation of business, that is.

Be that as it may, it is a grotesque distortion of what is happening to look at the matter this way. There is every reason to believe that businessmen spend vastly more ingenuity, energy, and money to get regulations construed so as to be able to live with or take advantage of them than they do in opposition to intervention. If this were the issue, however, there would be room for it as an issue in the framework of the prevailing ideology. There has been much discussion over the years about how the regulated manipulate the regulators. Those favoring government restraint of business have deplored it, while those more favorably disposed toward the needs of business activity have been more charitably inclined toward something they consider inevitable in any case.

Businesses Collect Taxes

But what is happening most prominently is of a different order. The grip of the idea is being fastened on America by using business as an instrument of political power. Much

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of the force of government power reaches the individual today indirectly by way of his employer and the other business and financial institutions with which he is involved.

Some of this instrumentation of business by government for its own ends is well known and needs only to be alluded to in order to be accepted. Businesses collect most of the taxes from individuals and pay them into local, state, and federal treasuries. This has already been discussed in connection with restrictions on enterprise, but it needs further elaboration in the context of government use of business to extend political power. Employers collect most income taxes, both state and Federal, by withholding them from salaries. They also collect Social Security taxes in the same way. Stores and other retail outlets collect sales taxes. On budget type mortgages, the mortgage company collects one-twelfth of the projected real estate taxes by way of the regular monthly payment. Telephone, electric, and gas companies add whatever taxes there may be upon their services to their bills, and when the bills are paid, the tax amounts are set aside to be paid into governments. Service stations collect the taxes on gasoline, tires, and other automobile accessories. There are also a considerable variety of hidden taxes on businesses which are generally passed on in the price of the product. The most extensive of these, though it is not usually referred to as "hidden," is the tax on corporations.

Businesses collect these taxes, of course, because they are required by law to do so and would be subject to punishment if they did not. The collection of them, the keeping of records, and the other costs associated with it, are generally a cost of doing business. The consumer pays these costs as well, though it is only fair to observe that he would no doubt pay them, and they would probably be higher, if government collected the taxes directly.

However that might be, it should be clear that government has empowered businesses to perform the bulk of one of its most disagreeable functions—the collection of taxes. This does not mean that people usually blame businesses for the taxes, though they are apt to blame them for high prices when, in fact, much of the price is attributable to taxes. The main impact of this use of business by government is somewhat more subtle. When business collects the taxes the individual loses his ability to contest paying them. He can only prevent income taxes from being withheld by quitting his job. He can only refuse to pay the sales taxes by declining to buy what he wants. The normal route for taking a case to court is denied him because of the difficulty in refusing to pay. The individual's economy is in-

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tertwined with the power of government over him.

Enforcement of Labor Laws

Business becomes an instrument of government, too, as the main executor of the government's labor and employment policies. The individual is the pawn in the midst of the complex rules by which government activates its policies through business. Whether he can get a job at all, whether he will have to join a labor union, how long he will work for how much, among other things, are determined by government policy.

Wages and hours legislation has been around for forty years now. Government prescribed minimum wages determine practically whether a person may be employed or not. If a person is unskilled, handicapped, or slow, he may not be sufficiently productive to be employed for a job because of the mandatory wage. The inexperienced are at a particular disadvantage, because a prospective employer has no way of knowing how long it will take or even whether an applicant may become productive enough both to earn the minimum wage and repay the expense of training him.

Union wages and other rules and restrictions are often an extension of government policy over business. The National Labor Relations Board, an arm of the federal government, establishes the framework, though it may not be known, sometimes, in advance of a ruling, within which company-union relations are to be carried on. Once a company recognizes a union, it tends to become an instrument of union policy—collecting dues, hiring through a union hall, requiring union membership of those it employs, maintaining seniority rules, and paying a union wage. The individual is at the mercy of the NLRB, the labor union, and the company when they act in concert.

Fair employment practices, as they are called, and Affirmative Action are prescribed by the federal and many state governments. Thus, the hiring and promotion practices of business become an instrument of government policy. To avoid litigation or government penalties many firms undertake joint ventures with minority owned companies, establish what are in effect quota systems in hiring and promotion, and conduct searches for minority personnel to fill vacancies. To the extent that political prescription is substituted for business judgment, a business becomes an instrument of political power.

Many of the regulations, restrictions, and restraints under which we live are imposed by way of business. For example, automobile safety equipment and emission controls come by way of requirements on auto makers. Safety belts, shoulder

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harnesses, interior design, structural strength, and so on, have made their appearance not from customer demand but by way of legislation. Buzzers, filters, and an assortment of other devices are attached to the vehicles by government fiat. An individual who wishes to have his vehicle divested of any of this impedimenta must either do it himself or find a wayward mechanic to do it for him.

Housing Regulations

Most of the housing available to us has its quality and character determined by building companies and financial institutions acting as instruments of government. Most of the financing of homes comes from privately owned institutions. However, their lending policies are heavily influenced and widely determined by government policy. VA and FHA guarantees undergird a considerable portion of the loans made to individuals. Athough the money comes from private sources, VA and FHA lay down standards for and determine much about the houses so financed. Many savings and loan associations are federally chartered and make their loans in terms of these government charters. Builders impose, as it were, the numerous requirements of local, state, and federal government on buyers, such things as zoning restrictions, set-back ordinances, distances of buildings from property lines, structural standards, sanitation and electrical prescriptions, the paving of streets, and so on and on. Real estate agents, if their services are to be used, impose the rules governing them upon their customers.

Examples could be multiplied of businesses as instruments of government, but perhaps enough has been told to establish the point. Virtually every business in America (if there is an exception, it has escaped my notice) acts as an arm of government in one way or another and to a greater or lesser extent. While the evidence to substantiate much of this must be familiar to most of us, the implications and results of it may not be so readily apparent.

The matter is more complex than the above would indicate. The examples thus far could be interpreted as being simply a case of government imposing rules upon business which they in turn, however reluctantly, impose on their customers. Undoubtedly, that is the way it is often enough. But that is hardly the whole story. *Government and business are so intricately intertwined today* that many businesses have taken on the character of governments. I would like to back into an explanation of the how and why of this development with a simple story.

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Banking Policies

Some years back I lived in a state which had a tax, imposed annually, on checking accounts in banks. This tax came to my attention one day when I was going over my monthly bank statement. There was a deduction from my account to pay this tax. This struck me as highly impertinent behavior by the bank. My understanding of the agreement I had with the bank was that when the spirit moved me I would deposit money with them. Then, when, as, and if I decided to do so I could order all or some portion of it to be paid out by writing checks on the account. They were trustees, so to speak, of such money as I deposited with them and were only to disburse it on my order. It seemed to me they had violated that trust by paying out my money without my knowledge or consent.

With that understanding in mind, I placed a call to the highhanded bank in question. (I am now older and wiser and therefore know in advance the futility of such calls, although I still make them sometimes just to prove that I am alive.) When I had finally been connected with someone sufficiently high up in the bank to deal with so exalted a question, I made inquiries about their behavior. I was assured that the bank had acted in accord with state law, something I had never for a moment doubted. But, I asked, has the law been challenged? He did not know, as best I can recall, nor, so far as I could make out, care.

My thought was that this manner of taking my money was in violation of the Fourteenth Amendment to the United States Constitution, which prohibits states to take the property of their citizens without due process of law. Moreover, it seemed to me that the bank had strong incentives to challenge such a law. After all, the bank wanted deposits from customers, and one of the best arguments for using their services was the security they provided for your money. It happened, too, that the bank was ideally situated to challenge this law, for it could do so by refusing to pay the tax, an option not available to me. In addition, the bank probably had a prestigious law firm on retainer to protect its interests, since this particular bank was one of a large chain spread over the state, there being no law in that state to prohibit branch banking.

My reasoning was not so much faulty as incomplete. True, banks have the incentive to reassure and protect their depositors. But I was ignoring something so basic as that the state government was probably one of the largest depositors in the bank. Indeed, the likelihood is so great as to amount to virtual certainty that the tax money taken from mine and other accounts did not even leave the bank; it was just

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shifted to the state's account. That, however, might not have been determinative if it were all that was involved.

I was ignoring the more trenchant fact that banks are creatures of government, that their very existence by charter depends upon government, that their privileges arise from the state, and that banks can be harassed, audited, have their charters revoked, or be closed down. That being the case, banks are about as likely to take on an adversary relationship to the state over some paltry tax as an unemployed spinster is to sue her parents with whom she lives over the lack of variety in her breakfast. Besides, the tax could hardly harm this chain of banks if all other banks in the states had to collect it too. Laws applied to a whole industry become merely a condition of doing business.

Is this an indictment of business? No, it is a description of what is happening in America as the concentrated power of government tightens its grip on people. The idea that has the world in its grip only permits what is called private business to exist on sufferance. It can exist only to the extent that it serves the ends of the idea as determined by those who control or manipulate government. Businessmen know that as a rule they cannot even survive, much less prosper, if they adopt an adversary relationship with government. Both politicians and businessmen sometimes speak as if they were adversaries. No great harm results. The ideological view of the relationship is affirmed, and each is given an opportunity to vent his spleen. But beneath the surface something quite different is going on.

The Ties that Bind

Business and government are intricately intertwined. Businesses generally depend upon government for charters, for licenses, for contracts, for subsidies, for guarantees of foreign investments, for favors for their particular industry, and so on, and on. Business serves government in the ways that are specified, becomes an instrument of government, in order to continue to function and, hopefully, make a profit. Airlines seeking new routes, continued payment for carrying the mail, and favorable rates are not about to contest the regulations on smoking that they apply to their passengers. Home builders hoping for some new government subsidy program to enable them to sell more houses have the incentive to work with rather than oppose government. Public utility firms seeking higher rates can hardly afford to object to being tax collectors. Whether unwillingly or not, business acts as a partner with government in imposing political power on Americans.

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You cannot play with fire without getting burned, of course. The more closely business becomes intertwined with government, the more like government it becomes. The object of politics is power. The aim of business is profit. The method of business is attraction and persuasion. The method of government is force. As business becomes politicized, it does not forgo its aim of making profits. What it does do is begin to seek to use the force of government to increase its profits. Power and profit are linked together as government and business become intertwined.

The Energy Crisis

This development may best be illustrated by an example. In the early 1970's a gasoline shortage occurred. It was a shortage engineered by politicians, of that there should be no doubt. The governments of several major oil producing countries declared an embargo and proceeded, thereafter, to raise the price of oil drastically. The shortage evaporated and was no more, though prices of gasoline were much higher than before. Nonetheless, American politicians proclaimed that we were in the midst of an incipient energy crisis. What the politicians had discovered was something known to economists for at least two hundred years, and to most other folks considerably longer, namely, that the sources of energy are *scarce*. Indeed, it is the very *scarcity* of fuel that makes it costly at all. We shall not, of course, run out of energy—not, that is, until the sun grows cold or this planet is wrenched away from its favorable location to the sun—but different sources may have to be tapped to get it.

Nonetheless, having misconstrued permanent scarcity as incipient and worsening shortage, some politicians went into their "sky is falling" routine, made a national problem out of it, and began to bring forth programs to solve it. Not surprisingly, these programs involved various sorts of government intervention. What may have been surprising, however, was the way in which fuel suppliers joined into this hue and cry. Full-page advertisements began to appear in newspapers, ads paid for by oil companies, electric power and gas companies, and such like, urging the conservation of energy and describing the efforts they were making to deal with the shortage. Power and gas companies began to include tips on conservation of energy in the envelopes containing their bills. Business instrumented itself swiftly to political policy.

For years, electric companies had urged their customers to use more and more electricity. They had extolled the virtues of electric appliances over all others.

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Moreover, they had encouraged greater use by giving customers lower rates as the amount used increased. Indeed, there did not appear to be anything odd about this earlier behavior. It was what advertising was for, to encourage use of a product. It was in keeping with what is economic. There are economies of scale in production. In the case of electricity, this means that when the investment in machinery has been made, the more that is produced with it, the less it costs to produce each unit. In order to sell this electricity, the company would promote greater use by reducing the rate as more was used.

And then, overnight, as it were, electric power companies stopped advertising their product and began propagandizing for conservation, adopting the same line as the government. Utility commissions began to approve what are called "inverted rate structures." What these rate structures do is penalize heavy users of electricity, by charging higher rates for greater amounts of electricity. The model for this rate structure must have been the graduated income tax.

Why would a power company stand still for such a rate structure? After all, it still got the advantage of economies of scale whether there was an energy shortage or not. Moreover, it costs little, if any, more to get the electricity to a home using 1500 kilowatts per month, say, than one using 500. The meter has to be read only once each month regardless of how much electricity is used. It costs as much to bill the user for 500 as for 5000 kilowatts, and the same expenses attend processing either account.

There are two answers which help to explain this otherwise strange power company behavior. One is that the power company was serving the source of its monopoly—government. The other is that the company was being well served, at least temporarily, by the utility commission. Undoubtedly, a power company could be greatly enriched if it could enjoy economies of scale and charge even more for this electricity than that bought by small-scale users.

Most likely, such a policy would, in the long run, be harmful to the power company, for profits would surely dwindle as use declined. But in the short run—before those who had all-electric homes could convert to other power sources, before alternative sources of power have been developed, before people changed their life styles to reduce the consumption of electricity—the companies should reap a windfall of profits.

Of course, high profits would bring them to the unfavorable attention of utility commissions who had approved the rates in the first

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place. Except that some power companies have already been foresighted enough to forecast a need for a vast amount of capital to increase production to meet demand. It apparently does not matter that the demand they are forecasting is based upon a projection of increases in the past, increases which took place when the use of electricity was being vigorously advanced by advertising and lower rates for heavy users. What the present policies will lead to is uncertain. Meanwhile, the intertwining of government and business has produced some strange uneconomic policies.

The Customer Loses

The final stage of business as an instrument of government will almost certainly be that business will be transformed into government, or be so much like it that we will have a distinction without a difference. The most basic distinction between business and government is this: Business serves; government commands. That distinction has been breaking down for years. One way it has broken down is that government has provided many services itself: education, parks, electric power, mail delivery, garbage collection, and so forth. The other way is that many businesses have been granted monopolies and special privileges so that they become more like governments than businesses.

Government regulation of business is almost always advanced as a way of restraining or inhibiting business. But it does not necessarily work that way. Government regulation limits and restrains business in serving customers. If a business is only permitted to stay open during certain hours, that limits its service to those hours. If rates are regulated, this may appear to limit the businessman, but it also limits the way in which he can serve. But most importantly, as the businessman is more closely regulated he shifts from serving to enforcing the conditions under which he will serve. He comes to resemble the policeman more than a businessman.

Public utilities are apt to be as inflexible in enforcing their rules as any government. The telephone installer will not install the telephone unless the householder is at home. The utilities will not begin service, ordinarily, until the person wishing to be served has made his way to their offices, put up a deposit, provided whatever information they require, and otherwise satisfied them that he is responsible. Hospitals are notoriously rule-ridden places, and many a nurse appears to be a frustrated prison matron. (It should be noted in this connection that hospitals are generally heavily subsidized by government and are coming under ever more strenuous regulation and controls.)

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From Service to Compulsion

Every organization must have internal discipline over its employees, of course. That is not at issue here. What is at issue is the shift of business from service to compulsion. It is, no doubt, a natural tendency of those who live under rules to shift the weight of the rules from themselves toward those whom they are supposed to serve. There is a corrective to that in the open market under competition. The customer does not like to be ordered around, and he goes elsewhere. He gives his business to those who wish to serve him rather than command him. Any rules that he perceives that apply to him had best be kept to the minimum and be unobtrusive.

When government steps in, that changes. So long as the rule applies to all in the industry, competition is no longer a factor in whatever is involved. The business no longer has to serve in that particular way; it needs only to do whatever the law requires. When rates are regulated, the business need no longer compete in that way. If some of the rates are not particularly profitable, those in the industry will discourage that particular custom, providing only the bare minimum of service that the law allows. Indeed, the burden of obtaining the service is often shifted to the customer. For example, when long-term interest rates for home buyers has been set below the market rate, the borrower usually has had to pay for the loan by what are called "points" and other advance charges. In addition to that, the conditions to be met in order to obtain the loan are usually quite exacting. Long waits for loan approval are common. The lender is not gladly serving; he is emphasizing the commanding position he occupies.

Evolutionary socialism advances gradually and step by step in America. The inroads are usually made under the guise of controlling, regulating, and taxing business and the sources of capital. On the surface, this does indeed occur. But beneath the surface government and business become intertwined. Business becomes an instrument of government, willing or not. Business becomes politicized. Business begins to serve its master, government, instead of or in addition to the consumer. Business begins, unwittingly perhaps, to adopt the posture of compulsion rather than of service.

According to the lore of our time there is a public sector and a private sector in the economy. But where is the private sector? Does it consist of privately owned companies such as those of the auto makers? What is private about mandatory seat belts and shoulder harness? What is private about mandatory emission controls? What is private about being forced by government to recall millions of automobiles annually to re-

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place parts? What is private about having to pay union wages and submit to union requirements reinforced by the National Labor Relations Board? Rather than referring to this as the private sector, it would be accurate to refer to it as the politicized sector of the economy. But which "sector" is not? Some are more, some are less, but all are being politicized.

The Political Framework

The deeper significance of this development needs to be clearly understood. To understand it, it is necessary to see it in terms of the appropriate theory. Much has been written about the impact of intervention in terms of economic theory. This is enlightening and informative. But when business becomes an instrument of government, economics becomes secondary, for the framework and the determinative element is no longer economic. It is political, and political theory must provide the framework from which it is to be understood.

Political theory has to do with how effectively to govern and how government may be restrained and limited. The greatest work on political theory in the United States was *The Federalist.* It was written as an exposition and defense of the Constitution of the United States and, more specifically, to urge its ratification. The great principles set forth there are those of constitutionalism, of representative government, of the dispersion of power in a federal system, of the separation of powers into three branches—all of which they argued would provide an energetic and strong but limited government.

The reason for limiting government was clear to the Founders of these United States. Government is dangerous. It differs from other organizations in that it has the power and authority to use sanctions. In a word, it is empowered legally to use force. Unlimited government means unlimited use of force. In practice it means that all institutions and organizations are permeated by force. The end result is tyranny.

No better prescription for tyranny could be written than to make business an instrument of government. Every businessman and every employee of businessmen becomes a servant of government. Every consumer, each one of us, is at the mercy of politicized business. The usual argument against intervention is that it is harmful economic restraint of goods and services business can and would provide. There is a more telling argument. It is that government control over business is inevitably government control over consumers, and the instrument of that control is business. ⊕

Next: 21. *The United States: The Thrust to Transformation*

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Gary North

I travel to a lot of colleges and universities. I give lectures, or visit friends, or just wander through libraries. A library is to me what a security blanket is to Linus. So I always enjoy seeing a new college.

There is an almost universal phenomenon that I observe on college campuses. Almost everywhere I go, I find lovely green lawns. Students are given a truly lush environment to use as they pursue their studies or whatever. It costs a lot of money to keep these lawns watered, trimmed, and in healthy shape. Laid out in the midst of every lawn is a system of concrete or asphalt walkways that connect buildings and other key meeting spots.

A walkway is an important item. It directs students and visitors. It allows them to keep their feet dry most of the time, or free from mud. It keeps freshly cut grass off their shoes. Most of all, it keeps them moving along prescribed paths. Sometimes.

The odd fact tht I invariably notice is this: every campus will have at least one lawn where the students have wandered from the straight and narrow. Some new route has captured their fancy, and you can see squashed grass along odd routes, or sometimes even hard-packed earth where no grass can grow. The sight of these "user-developed" walkways is usually offensive because of their lack of symmetry with the lay-out of the other walkways. No architect designed them, no overarching plan

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integrated them, and no amount of pleading from the administration could remove them (if administrations ever pleaded about anything but money these days).

From the point of view of aesthetic considerations, these alternative paths are eyesores. They challenge the rationality of the architectural design. They are an affront to the planner who carefully laid out the lawns, buildings, and walkways. They are irrational from the point of view of some planning committee. All the committee's work in seeing to it that walkways were provided in rational locations is being challenged by people who do not show proper respect for aesthetics or organization.

Yet students are an independent bunch, at least when confronting administrative authority. They really are not concerned about the costs that went into designing pathways across campus. What they care about is the fastest way to get from Psych 109 to Chem lab. Or from History 7A to English 1A. And as popular classes are moved from one room to another, with other popular classes at preceding or succeeding hours producing very different populations flows, the best-laid plans of architects are buried under the packed soil of the alternative routes.

The larger the campus, or the older, the more alternative pathways you will find. If new buildings are constructed, you can count on some new paths of ruined grass. People make rational decisions concerning the use of their time and effort, and the grass reflects their estimations. The cost of preserving lovely grass panoramas untouched by human foot proves too much to bear. So much for expensive architects.

Designed to Serve

If I were a campus architect, I would recommend to the administration of a newly designed school that they put in no walkways at all. Maybe one, between the parking lot and the main building, since it doesn't take a crystal ball to forecast *that* route's popularity. But it would be far better to let the grass grow and the students wander. Let the students get their feet wet, or grassy, or muddy for a semester or two. Then, when the pathways appear in response to student decision-making, the cement mixers could be called in, and the rational walkways installed. This would do a great deal to reduce the number of unplanned paths around the campus.

But if the administration were to demand respect, and put signs around the lawns telling students to keep off the grass, they would alienate students, create hostility, risk constant violations, and reduce the

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benefits students receive through sitting on the grass. To defend the logic of the central planning agency, the administration would convert the grass into a purely ornamental resource—one which might be resented by students who were being forced to use less efficient pathways to get from class to class.

The interesting thing to consider is the fact that *paths require planning*. The nicely laid-out paths require an architect, or committee, or at least a team of cement-laying craftsmen. But the other paths also require planning. The planning is individualistic. A student wants to save some time to get from here to there. He makes a decision to cut across campus by way of a particular lawn. He may be imitated by other classmates who see the wisdom of his pathbreaking innovation. Or he may be a lone wolf who takes very odd classes at peculiar hours, so no one follows his lead. But in any case, students make decisions. "Can I risk the mud to save two minutes? Will my shoes get covered with cut grass if I cut across? Are my friends going along the prescribed concrete path? Should I stick with tradition?" Then they make a decision.

What we might say, then, is that the unofficial pathways are *the product of human reason but not the product of human design*. They are the product of human action, but no central planning agency ever met to consider the logic of the routes. They are reasonable, efficient, and preferred by those using them, but they are only randomly integrated into an aesthetically pleasing design. They meet the needs of the users, though not the preferences of trained, certified, professional designers.

Is it any wonder, then, that designers prefer rules keeping people off the grass? Is it any wonder that they would prefer to keep their design intact at the expense of those unprofessional, untrained users who would mar the coherence of a grand design merely for the sake of saving 30 seconds between classes? How can planners protect their creations from those who care nothing for beauty and everything for convenience? Simple; they get the authorities to enforce the rule: "Keep Off the Grass."

Market Parallels

Isn't the attitude of the professional lawn designer similar to that of the professional economic planner? Only the planner is not dealing with anything so simple as designing a few pathways between a handful of buildings in a limited geographical area. The modern central economic planners have to deal with millions of citizens who are capable of making an almost infinite number of allocation decisions with their scarce economic resources. The task

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of the central planner is astronomically large, or worse; for people, unlike the orbs of space, keep changing their minds and wandering down forbidden, unpredictable paths.

Why is it that as society has grown more and more complex, defenders of the idea of central planning argue that we need even more central planning? We see on campus that rational designers cannot foresee the responses over time of a few thousand students. Yet the economic planners would have us believe that they, when given access to computer print-outs, can administer a comprehensive rational plan embracing the lives and hopes of millions of people. What we can see with our own eyes does not work very well over time on campus, we are expected to believe with respect to an entire economy.

The planners of an economy need the resources available to men for their comprehensive plan. It is not an aesthetic inefficiency that concerns them; it is the smooth functioning of the collective plan. Those who choose to use scarce resources in unpredictable ways are a far greater threat to the planners and their plan than students who only rearrange the paths on some local college campus. The economic planners are unwilling to tolerate this threat to their design. They are unwilling to consider the logic of those who prefer production and distribution to be handled through a market. The market was never designed; like the unofficial pathways, it was the product of human action but not human design. So its rationality is not accepted as "true rationality" by those who define reason in terms of a central plan made by a staff of certified professionals. To be rational, the results must be the product solely of design, by definition.

Controls for Protecting the Grand Design

This creates an enormous incentive for central planners to restrict the "random wanderings" of "unprofessional" decision-makers who are not aware of the grand design. The planners have laws passed keeping men from making certain kinds of exchanges, or exchanges above or below an approved, designed, "rational," just, fair price. No one is to gather too many resources under his control, for this would be monopolistic. No one must sell (or buy) goods or services that are not of the officially approved quality. No one is to bring in resources from across a border, since in order to bring in resources, one must send out other resources—and these may be important to the smooth functioning of the central plan. One never can be quite certain, so it is better to prohibit the exchange. So the economy becomes littered with signs that are the

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economic equivalent of "Keep Off the Grass."

But what is the grass for? What are the resources for? Are they for the enjoyment of central planners, designers, and allocators? Or are the resources for the enjoyment and use of those who use them? Who is better able to decide? Must efficiency be sacrificed on the altar of central planning? Must people's assessments of the best use of their resources be thwarted by the decisions of a central planning committee far removed from the daily lives of individual decision-makers? Why should we have faith in such a distant board of experts?

Who Owns the Grass?

The college, through its board of trustees, owns the grass. The students use it as guests of the college. So the administration has the right to put up signs if it prefers to do so. But the students also have the right to transfer to a more congenial college. And college budgets being what they are today, most administrators are prepared to put up with a few unauthorized dirt paths through the grass. They face competition.

A central planning committee also owns the "grass." This is the meaning of ownership. The central committee can use the economy's resources as it, the committee, sees fit. The meaning of ownership is simple: the owner has the right to *disown* the property. If he cannot sell it or dispose of it as he sees fit, then he is not the ultimate owner. The modern State asserts the claim of ultimate ownership over the assets within its borders. The modern State says that it owns the grass. But unlike college administrators, the modern State faces no legal, direct competition. It is expensive to "transfer" to a new "campus." And where central planning is fully enforced, or enforced beyond the willingness of its citizens to endure voluntarily, the modern planning State puts up barbed wire and guards and electronic sentries along its borders. The "workers' paradises" all seem to have this "transfer" problem. They have to put up the barbed wire in order to make certain that their citizens cannot go to a place where there are very few signs reading, "Keep Off the Grass." They do not want their citizens to experience the joys of ownership, where the citizen owns his own grass and can put up a sign to all others, including State officials, saying, "Keep Off *My* Grass."

Make Your Own Path

The free market allows us to buy another man's lawn, or lease access across another man's lawn for a price. It allows us to put up signs or to let anyone use our property. It allows others to bid for ownership, thereby placing a cost on our con-

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tinued planting of our "Keep Off My Grass" signs. We then forfeit income by keeping others off our grass, so we have to count the costs of our restrictions, daily. The free enterprise system allows us to buy our way across a wilderness or another man's front yard. It lets us put in our preferred pathways as we see fit, to use as we like or to sell to others who will offer us what we regard as better opportunities, better pathways. Some may follow us. We may follow others. Or we may strike out on our own.

The point to bear in mind is this: we can buy our way across another man's lawn if we offer him his price. And if he won't sell, perhaps some other lawn-owner will. We buy resources and use them to construct our own pathways, to use as we see fit. They may be geared to beauty, or they may be "merely" efficient. If men are allowed to do this, some will come up with designs that are both efficient and beautiful. Others may come up with plans that are inefficient and ugly—in their neighbors' eyes. But at least their neighbors can bid on the eyesores and possibly buy the right to improve them. When the planners own all paths, and there is no open, legal market for control, the pathways are sure to displease many. And there won't be legal alternatives available for those who are displeased.

So men must be resigned to keeping off their neighbors' grass if that is what their neighbors prefer. The alternative is the use of force, directly or indirectly (politically), and the result of violence is the transfer of all grass to the State's central planners. The State asserts its rights of ownership to "solve" the problem of envy and violence. Then we will live our lives in a world of lawns that are filled with signs, "Keep Off the State's Grass." And if history reveals anything, we can safely predict that the grass will be overgrown with weeds and the pathways will be cracked and stained. No one wants to maintain and improve somebody else's lawn. ⊕

Underlying Ideas

IDEAS ON LIBERTY

INSTITUTIONS and laws are but the outward manifestation or outcome of the underlying ideas, sentiments, customs, in short, character. To urge a different outcome would in no way alter men's character—or the outcome.

GUSTAVE LE BON

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Bob Stevenson

Robert Louis Stevenson: Champion of Liberty

"At the sight that met my eyes, my blood was changed into something exquisitely thin and icy. Yes, I had gone to bed Henry Jekyll, I had awakened Edward Hyde." Literature buffs instantly recognize who wrote these words: Robert Louis Stevenson, one of the all-time great Champions of Liberty. "Super storyteller, I'll agree; but, Champion of Liberty?" you wonder. Precisely! For this beloved author of *Treasure Island, Strange Case of Dr. Jekyll and Mr. Hyde,* and other masterpieces also penned the following:

> No man can settle another's life for him. It is the test of the nature and courage of each that he shall decide it for himself.[1]

In fact, Robert Louis Stevenson's writings are replete with such sayings extolling the virtues of self-responsibility. That this is so becomes understandable when we study RLS's life, a tale more inspirational than any he wrote.

Robert Louis Stevenson was born November 13, 1850 in Edinburgh, Scotland to Margaret and Thomas Stevenson. Louis, as his parents called him, was Margaret and Thomas's only child. As a youngster, Louis suffered from one serious illness after another—bronchitis, gastric fever, and so on. The times he hovered near death were innumerable. But, the boy held on; two major factors were responsible for this. First, Thomas Stevenson was a successful engineeer who could afford the best medical care for his son. Second, Louis's extraordinary nurse, Cummy, constantly lavished the child with love and attention.

Cummy's impact on Stevenson's life cannot be overemphasized. She

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kept Louis's mind off his misery, the dreariness of lying in bed day in and day out, by continually *reading to him*. Nowadays RLS's nurse might have turned on the TV, and considered her job done. But, would Stevenson—without Cummy—have developed into the remarkable writer he later became?

Because of his poor health, which plagued him most of his life, Louis didn't enter school until he was seven years old. The school was a private school, kept by a Mr. Henderson. As for Louis, he didn't know yet how to read! It's easy to imagine how current-day educationalists would respond to Stevenson's case: they'd immediately throw him in a special audio-visual class for slow-learners (a program massively funded by the federal government, of course), while at the same time prosecuting his parents under the truancy law for "gross neglect" and "intentional withholding" of their son from the public school system.

Fortunately, Stevenson grew up in a more humane environment. Whenever the family was away from Edinburgh on vacation, or Louis was too sick to attend school, Margaret and Thomas brought in tutors to help instruct their son. As a result, the boy's "reading disability" soon disappeared; in fact, he became an over-reader! How come the big turnaround? The answer clearly rests in the educational philosophy Stevenson's parents put into practice. Margaret and Thomas always had Louis enrolled in private schools or learning from tutors. One tutor, described by RLS's mother as "a disappointment," either resigned or was dismissed—it's unclear which. Still, the incident illustrates the flexibility contained in a system that places primary responsibility for the child's education in the parents' hands. The child learns at an optimum pace; and parental pride, manifested in the form of loving prodding and careful selection of school and instructor, generally ensures that the pace is brisk.

As Louis grew older, literature increasingly became a passion with him. He sometimes skipped classes so he could walk through town or the countryside and write down his impressions. *On his own* Stevenson struggled to master his eventual trade. He realized there were no shortcuts to attaining excellence. The old farmer Gottesheim, in *Prince Otto*, reflects this belief of Stevenson:

> "I have been fifty years upon this River Farm, and wrought in it, day in, day out; I have ploughed and sowed and reaped, and risen early, and waked late; and this is the upshot: that all these years it has supported me and my family; and been the best friend that ever I had, set aside my wife; and now, when my time comes, I leave it a better farm than when I found it. So it is, if a man works

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hearty in the order of nature, he gets bread and he receives comfort, and whatever he touches breeds."[2]

Interestingly, Stevenson's father did not consider writing to be a suitable occupation for his son. Thomas tried to interest Louis in becoming an engineer like himself; when that failed, he made his son attend law school. RLS passed the bar, but he cared nothing for a career as a lawyer. A writer, young Stevenson proclaimed, he would be!

This decision, made at age 24, did not go over well with Thomas. Even so, Louis's parents aided him in his attempt to make a name for himself as a writer; however, the financial support was hardly generous. Compared to the welfare benefits our present government would bestow on Stevenson, it rated a pittance. But, the "budget plan" financial backing RLS received from his folks was one of the best things that happened to him. It made him strive all the harder to perfect his art and produce a best seller; for Louis was *accountable to people he loved.* As he wrote in his essay entitled "Beggars":

> We should wipe two words from our vocabulary: gratitude and charity. In real life, help is given out of friendship, or it is not valued; it is received from the hand of friendship, or it is resented.[3]

Stevenson obviously felt obligated to turn his parents' assistance into a winning investment. He wrote to his mother:

> Money.—I am much obliged. That makes £180 now. This money irks me, one feels it more than when living at home. I think of all this money wasted in keeping up a structure that may never be worth it—all this good money sent after bad.[4]

One wonders how many similar letters of gratitude the local Welfare Office has ever received. Stevenson's best sellers were still a few years away, but he did manage to get many of his early works published. This meant he required less and less support from his parents. RLS's first published book was *An Inland Voyage,* written when he was 26. In it he firmly contended that one, over the long run, could not get something for nothing:

> There is nothing but tit for tat in this world, though sometimes it be a little difficult to trace: for the scores are older than we ourselves, and there has never yet been a settling-day since things were. You get entertainment pretty much in proportion as you give.[5]

In 1879 when he was 29 Stevenson crossed the Atlantic and the United States to marry Fanny Van de Grift Osbourne. His travelmates during the trip happened to be emigrants whose Socialist bent and poor grasp of reality Stevenson thought little of. He recorded the emigrants' simplistic opinions in his book *The Amateur Emigrant:*

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At bottom, as it seems to me, there is but one question in modern home politics, though it appears in many shapes, and that is the question of money; and but one political remedy, that the people should grow wiser and better. My workmen fellow-passengers were as impatient and dull of hearing on the second of these points as any member of Parliament; but they had some glimmerings of the first. They would not hear of improvement on their part, but wished the world made over again in a crack, so that they might remain improvident and idle and debauched, and yet enjoy the comfort and respect that should accompany the opposite virtues; and it was in this expectation, as far as I could see, that many of them were now on their way to America. But on the point of money they saw clearly enough that inland politics, as far as they were concerned, were reducible to the question of annual income; a question which should long ago have been settled by a revolution, they did not know how, and which they were about to settle for themselves, once more they knew not how, by crossing the Atlantic in a steamship of considerable tonnage.[6]

Lasting Improvements

Unfortunately, we still see this same muddle-headedness today in our Congressmen and much of the public. As they say, what else is new? For clearly, the lesson mankind most frequently forgets is this: the only valuable and long-lasting improvements are those which are made for the individual *by the individual himself.* Stevenson lived by this code, and devoted more than his fair share of time trying to impress it on others. He believed one of the lowest levels of moral degradation was that of an otherwise healthy person living off the labors of another.

Fanny Stevenson noted of her husband: "While he could see no royal road for others, the path for himself showed plainly enough before him, and it was his duty to swerve neither to the right nor the left. He believed he had no rights, only undeserved indulgences. He must not eat unearned bread, but must pay the world, in some fashion, for what it gave him—first, materially, then in kindness, sympathy, and love."

As RLS observed in his essay, "Letter to a Young Gentleman":

> To give the public what they do not want, and yet to be supported: we have there a strange pretension, and yet not uncommon, above all with painters. The first duty in this world is for a man to pay his way; when that is quite accomplished, he may plunge into what eccentricity he likes; but emphatically not till then. Till then, he must pay assiduous court to the bourgeois who carries the purse. And if in the course of these capitulations he shall falsify his talent, it can never have been a strong one, and he will have preserved a better thing than talent—character.[7]

In 1883 Stevenson completed *Treasure Island.* The public in-

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stantly fell in love with the story, and Louis had finally made his mark. Publishers vied for his works. RLS's literary output from this point on provided all the income his family required; he no longer needed any financial support from his parents.

Personal Achievement

There are many reasons why Stevenson became the favorite author of many. That his literary talents were unsurpassable, and his works the product of genius, critics readily acknowledge. But, the main theme of his stories—the theme that through personal initiative and courage anyone can achieve his goal—seems to explain best why he captured the hearts of his readers. In *Treasure Island, Kidnapped,* and most of RLS's other novels we see the elements of danger and adventure uppermost. The hero usually has to overcome several misfortunes and death-defying experiences before capturing the grand prize: treasure, a wife, wealthy estate, or the like. Jim Hunter in *Treasure Island* and David Balfour in *Kidnapped* both beat long odds *on their own,* albeit with a touch of luck here and there.

The year 1886 saw publication of *The Strange Case of Dr. Jekyll and Mr. Hyde,* one of Stevenson's two best short stories. RLS wrote all 60,000 words of *Dr. Jekyll and Mr. Hyde* in 6 days—and while seriously ill! During these 6 days, according to his wife, "he was suffering from continual hemorrhages, and was hardly allowed to speak, his conversation usually being carried on by means of a slate and pencil." Yet, Stevenson, with incredible determination, produced a masterpiece.

One year later, in 1887, Stevenson's essay "The Day After To-Morrow" was published. In it RLS denounces the Socialistic trends of his time, and speculates on what awaits future generations who put their faith in collectivism. The prophecies appearing in "The Day After To-Morrow" have come about so unerringly, Stevenson must be ranked alonside Tocqueville as one of the 19th Century's most outstanding possessors of prevision. At one point Stevenson states:

> Once eliminate the fear of starvation, once eliminate or bound the hope of riches, and we shall see plenty of skulking and malingering. Society will then be something not wholly unlike a cotton plantation in the old days; with cheerful, careless, demoralised slaves, with elected overseers, and, instead of the planter, a chaotic popular assembly.[8]

The world we live in today could not be better described. In any occupation deadbeats now seem the rule rather than the exception. Save for the work force of a few bastions of free enterprise—notably Taiwan, Japan, and Korea—modern day job-

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holders display proficiency and enthusiasm for but one task: punching in and out the time card.

In another section of "The Day After To-Morrow" Stevenson issues a warning similar to that contained in Frederic Bastiat's famous tract, "What Is Seen and What Is Not Seen":

> The landlord has long shaken his head over the manufacturer; those who do business on land have lost all trust in the virtues of the shipowner; the professionals look askance upon retail traders and have even started their co-operative stores to ruin them; and from out the smoke-wreaths of Birmingham a finger has begun to write upon the wall the condemnation of the landlord. Thus, piece by piece, do we condemn each other, and yet not perceive the conclusion, that our whole estate is somewhat damnable. Thus, piece by piece, each acting against his neighbour, each sawing away the branch on which some other interest is seated, do we apply in detail our Socialistic remedies, and yet not perceive that we are all labouring together to bring in Socialism at large. A tendency so stupid and so selfish is like to prove invincible; and if Socialism be at all a practicable rule of life, there is every chance that our grandchildren will see the day and taste the pleasures of existence in something far liker an ant-heap than any previous polity.[9]

"The Day After To-Morrow" forms one of the crown jewels of classical Libertarian thought. But, what inspired Stevenson to write it? Some clue is found in RLS's essay, "Crabbed Age and Youth," written when he was 25. In this essay Stevenson admits that he had once been "a red-hot Socialist with a panacea of my own." But, he proclaimed he wasn't ashamed of his past, for "if St. Paul had not been a very zealous Pharisee, he would have been a colder Christian." Stevenson concluded his discussion of why he changed from a Socialist into what he called a "Conservative" by stating:

> I seem to see that my own scheme would not answer; and all the other schemes I ever heard propounded would depress some elements of goodness just as much as they encouraged others.[10]

To the South Seas

Thomas Stevenson, who had been in declining health for years, died in 1887. Louis, to his own physical detriment, had stayed in Scotland and England much of this time so he could be near his father. With Thomas's death RLS no longer had to stay and endure the cold, damp British climate. A friend had suggested to Stevenson several years before that he move to the South Seas; the islands, the friend assured, would give him robustness and vitality. Louis finally acted on this wise counsel. After making many stops at various island groups, Stevenson and his family, in October, 1890, made their home in Samoa on the island of Upolu.

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True to his friend's prediction, Stevenson's health dramatically improved. His daily routine at Vailima (RLS's estate) usually consisted of 10 hours devoted to literary projects, which were sandwiched around garden work and lengthy discussions with the Samoan chiefs. On top of this, it was not unusual for Stevenson to write upwards of 30 letters a day.

Critics maintain RLS's literary output during this period constitute his most maturely expressed and crafted works. Although it hardly seemed possible, Stevenson, now in his 40's, was improving as a writer! With the creation of *The Beach of Falesá,* a short story unrivalled in suspense and characterization, RLS reached the summit of literary perfection. In achieving this, however, Stevenson did not forget to promote his Individualist convictions. In one part of *The Beach of Falesá* he castigates those who cut corners in life:

> They talk about looking for gold at the end of a rainbow; but if a man wants an employment that'll last him till he dies, let him start out on the soft-job hunt. There's meat and drink in it too, and beer and skittles, for you never hear of them starving, and rarely see them sober; and as for steady sport, cock-fighting isn't in the same county with it.[11]

Stevenson, in this quote, refers to the numerous beachcombers he had seen on his travels in the South Seas. These freeloaders had both fascinated and sickened him with their moral shallowness. Stevenson's book, *The Ebb-Tide,* is a fictionalized account of the beachcombing scene; but, the major point RLS makes in *The Ebb-Tide*—that the end of the line *or rope* eventually greets those who duck honest work—falls in the non-fiction category.

Political Activity

Stevenson, when he settled in Samoa, immediately immersed himself in local politics. At the time the Germans, English, and Americans were wrestling with one another for control over Samoa. Stevenson's loyalties, though, rested with the fourth faction—the natives! The white men, meanwhile, so bungled their home government's plans to make Samoa into a colony, one didn't know whether to laugh or cry. Stevenson certainly must have done both; he also did everything in his power to assist the Samoans in their battle to retain their liberty.

For example, he gave liberal sums of money to the Samoan chiefs to help finance the resistance; he wrote letters to *The Times* exposing the Great Powers' ludicrous machinations in Samoa; and finally, Tusitala (Teller of Tales), as the Samoans fondly called RLS, compiled all the grubby details into a book, *A Footnote to History.* As often happens

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with people who vigorously advance the doctrines of liberty and self-determination, Stevenson found himself in hot water with the authorities. The High Commissioner in Fiji nearly charged him with sedition; fortunately, the Home Office in London interposed, thereby letting Stevenson off the hook.

That Stevenson's efforts on behalf of the Samoans were appreciated by them would be an understatement. In September, 1894 several chiefs were released from prison. These men did not at once return home; instead, they went straight to Vailima and began work on the road that led from Stevenson's house to the public way. Tusitala had helped them when they were in prison, and this is how they wished to repay him. Stevenson was extremely moved by this gesture, for as he described it, "it is road-making—the most fruitful cause (after taxes) of all rebellions in Samoa."[12] He was well aware of the unpopularity of road-making to Samoans.

In October the road was completed, and Stevenson thanked the chiefs in the most stirring speech of his life. RLS was to die suddenly two months later on December 3, 1894 of a stroke, an event which occasioned tremendous grief in Samoa and around the world; but, his untimely departure is not the thing to remember Stevenson by. Rather, we should recall his irrepressible spirit by pondering the ringing words the Teller of Tales delivered to the road-workers.

And who is the true champion of Samoa? It is not the man who blackens his face, and cuts down trees, and kills pigs and wounded men. It is the man who makes roads, who plants food trees, who gathers harvests, and is a profitable servant before the Lord, using and improving that great talent that has been given him in trust. That is the brave soldier; that is the true champion; because all things in a country hang together like the links of the anchor cable, one by another: but the anchor itself is industry.[13]

—FOOTNOTES—

[1]Robert Louis Stevenson, "Letter to Trevor Haddon," *The Works of R. L. Stevenson*, Vol. 21 (New York: Charles Scribner's Sons, 1923), p. 123.

[2]*Ibid., Prince Otto*, Vol. 5, p. 350.

[3]*Ibid.*, "Beggars," Vol. 12, p. 280.

[4]*Ibid.*, "Letter to Mrs. Thomas Stevenson," Vol. 20, pp. 224-25.

[5]*Ibid., An Inland Voyage*, Vol. 1, p. 127.

[6]*Ibid., The Amateur Emigrant*, Vol. 2, pp. 312-13.

[7]*Ibid.*, "Letter to a Young Gentleman," Vol. 12, p. 352.

[8]*Ibid.*, "The Day After To-Morrow," Vol. 4, p. 459.

[9]*Ibid.*, pp. 453-54.

[10]*Ibid.*, "Crabbed Age and Youth," Vol. 2, pp. 70-71.

[11]*Ibid., The Beach of Falesá*, Vol. 15, p. 325.

[12]*Ibid.*, "Letter to Sidney Colvin," Vol. 23, p. 430.

[13]*Ibid.*, "Address of R. L. Stevenson to the Chiefs on the Opening of the Road of Gratitude, October, 1894," Vol. 23, p. 475.

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"The Day After To-Morrow," a brilliant reading of human nature, accurately foretells the state of society under socialist rule. This somewhat unexpected, but welcome essay by one of the most beloved writers of all time was first published in the *Contemporary Review*, April, 1887.

Robert Louis Stevenson

THE DAY AFTER TO-MORROW

HISTORY is much decried; it is a tissue of errors, we are told, no doubt correctly; and rival historians expose each other's blunders with gratification. Yet the worst historian has a clearer view of the period he studies than the best of us can hope to form of that in which we live. The obscurest epoch is to-day; and that for a thousand reasons of inchoate tendency, conflicting report, and sheer mass and multiplicity of experience; but chiefly, perhaps, by reason of an insidious shifting of landmarks.

Parties and ideas continually move, but not by measurable marches on a stable course; the political soil itself steals forth by imperceptible degrees, like a travelling glacier, carrying on its bosom not only political parties but their flag-posts and cantonments; so that what appears to be an eternal city founded on hills is but a flying island of Laputa. It is for this reason in particular that we are all becoming Socialists without knowing it; by which I would not in the least refer to the acute case of Mr. Hyndman[1] and his horn-blowing supporters, sounding their trumps of a Sunday within the walls of our individualist Jericho, but to the stealthy change that has come over the spirit of Englishmen and English legislation.

A little while ago, and we were still for liberty; "Crowd a few more thousands on the bench of Government," we seemed to cry; "keep her head direct on liberty, and we cannot help but come to port." This is over; *laisser-faire* declines in favour; our legislation grows authoritative, grows philanthropical, bristles with new duties and new penalties, and casts a spawn of inspectors, who now

[1]Editor's Note: Henry Mayers Hyndman (1842-1921) was the founder of British Socialism. He was considered proud and dominant in his manners, intellectually intolerant, and resentful of criticism or disagreement.

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begin, note-book in hand, to darken the face of England. It may be right or wrong, we are not trying that; but one thing it is beyond doubt: it is Socialism in action, and the strange thing is that we scarcely know it.

Liberty has served us a long while, and it may be time to seek new altars. Like all other principles, she has been proved to be self-exclusive in the long run. She has taken wages besides (like all other virtues) and dutifully served Mammon; so that many things we were accustomed to admire as the benefits of freedom and common to all were truly benefits of wealth, and took their value from our neighbours' poverty. A few shocks of logic, a few disclosures (in the journalistic phrase) of what the freedom of manufacturers, landlords, or shipowners may imply for operatives, tenants, or seamen, and we not unnaturally begin to turn to that other pole of hope, beneficent tyranny.

Freedom, to be desirable, involves kindness, wisdom, and all the virtues of the free; but the free man as we have seen him in action has been, as of yore, only the master of many helots; and the slaves are still ill fed, ill clad, ill taught, ill housed, insolently treated, and driven to their mines and workshops by the lash of famine.

So much, in other men's affairs, we have begun to see clearly; we have begun to despair of virtue in these other men, and from our seat in Parliament begin to discharge upon them, thick as arrows, the host of our inspectors. The landlord has long shaken his head over the manufacturer; those who do business on land have lost all trust in the virtues of the shipowner; the professions look askance upon the retail traders and have even started their co-operative stores to ruin them; and from out the smoke-wreaths of Birmingham a finger has begun to write upon the wall the condemnation of the landlord. Thus, piece by piece, do we condemn each other, and yet not perceive the conclusion, that our whole estate is somewhat damnable.

Thus, piece by piece, each acting against his neighbour, each sawing away the branch on which some other interest is seated, do we apply in detail our Socialistic remedies, and yet not perceive that we are all labouring together to bring in Socialism at large.

A tendency so stupid and so selfish is like to prove invincible; and if Socialism be at all a practicable rule of life, there is every chance that our grandchildren will see the day and taste the pleasures of existence in something far liker an ant-heap than any previous human polity. And this not in the least because of the voice of Mr. Hyndman or the horns of his followers; but by the mere glacier movement of the politi-

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cal soil, bearing forward on its bosom, apparently undisturbed, the proud camps of Whig and Tory.

If Mr. Hyndman were a man of keen humour, which is far from my conception of his character, he might rest from his troubling and look on: the walls of Jericho begin already to crumble and dissolve. That great servile war, the Armageddon of money and numbers, to which we looked forward when young, becomes more and more unlikely, and we may rather look to see a peaceable and blindfold evolution, the work of dull men immersed in political tactics and dead to political results.

Parliaments on Trial

The principal scene of this comedy lies, of course, in the House of Commons; it is there, besides, that the details of this new evolution (if it proceed) will fall to be decided; so that the state of Parliament is not only diagnostic of the present but fatefully prophetic of the future. Well, we all know what Parliament is, and we are all ashamed of it. We may pardon it some faults, indeed, on the ground of Irish obstruction—a bitter trial, which it supports with notable good-humour. But the excuse is merely local; it cannot apply to similar bodies in America and France; and what are we to say of these? President Cleveland's letter may serve as a picture of the one; a glance at almost any paper will convince us of the weakness of the other.

Decay appears to have seized on the organ of popular government in every land; and this just at the moment when we begin to bring to it, as to an oracle of justice, the whole skein of our private affairs to be unravelled, and ask it, like a new Messiah, to take upon itself our frailties and play for us the part that should be played by our own virtues. For that, in few words, is the case. We cannot trust ourselves to behave with decency; we cannot trust our consciences; and the remedy proposed is to elect a round number of our neighbours, pretty much at random, and say to these: "Be ye our conscience; make laws so wise, and continue from year to year to administer them so wisely, that they shall save us from ourselves and make us righteous and happy, world without end. Amen." And who can look twice at the British Parliament and then seriously bring it such a task?

I am not advancing this as an argument against Socialism: once again, nothing is further from my mind. There are great truths in Socialism, or no one, not even Mr. Hyndman, would be found to hold it; and if it came, and did one tenth part of what it offers, I for one should make it welcome. But if it is to come, we may as well have some

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notion of what it will be like; and the first thing to grasp is that our new polity will be designed and administered (to put it courteously) with something short of inspiration. It will be made, or will grow, in a human parliament; and the one thing that will not very hugely change is human nature. The Anarchists think otherwise, from which it is only plain that they have not carried to the study of history the lamp of human sympathy.

Given, then, our new polity, with its new waggonload of laws, what head-marks must we look for in the life? We chafe a good deal at that excellent thing, the income-tax, because it brings into our affairs the prying fingers, and exposes us to the tart words, of the official. The official, in all degrees, is already something of a terror to many of us. I would not willingly have to do with even a police constable in any other spirit than that of kindness. I still remember in my dreams the eye-glass of a certain *attaché* at a certain embassy—an eye-glass that was a standing indignity to all on whom it looked; and my most disagreeable remembrance is of a bracing, Republican postman in the city of San Francisco. I lived in that city among working-folk, and what my neighbours accepted at the postman's hands—nay, what I took from him myself—it is still distasteful to recall.

The bourgeois, residing in the upper parts of society, has but few opportunities of tasting this peculiar bowl; but about the income-tax, as I have said, or perhaps about a patent, or in the halls of an embassy at the hands of my friend of the eye-glass, he occasionally sets his lips to it; and he may thus imagine (if he has that faculty of imagination, without which most faculties are void) how it tastes to his poorer neighbours, who must drain it to the dregs. In every contact with authority, with their employer, with the police, with the School Board officer, in the hospital, or in the workhouse, they have equally the occasion to appreciate the light-hearted civility of the man in office; and as an experimentalist in several out-of-the-way provinces of life, I may say it has but to be felt to be appreciated.

A Golden Age of Officials

Well, this golden age of which we are speaking will be the golden age of officials. In all our concern it will be their beloved duty to meddle, with what tact, with what obliging words, analogy will aid us to imagine. It is likely these gentlemen will be periodically elected; they will therefore have their turn of being underneath, which does not always sweeten men's conditions. The laws they will have to administer will be no clearer than those we know today, and the body which is to regu-

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late their administration no wiser than the British Parliament. So that upon all hands we may look for a form of servitude most galling to the blood—servitude to many and changing masters—and for all the slights that accompany the rule of Jack in office.

And if the Socialistic programme be carried out with the least fulness, we shall have lost a thing in most respects not much to be regretted, but, as a moderator of oppression, a thing nearly invaluable—the newspaper. For the independent journal is a creature of capital and competition; it stands and falls with millionaires and railway-bonds and all the abuses and glories of to-day; and as soon as the State has fairly taken its bent to authority and philanthropy, and laid the least touch on private property, the days of the independent journal are numbered. State railways may be good things, and so may State bakeries; but a State newspaper will never be a very trenchant critic of the State officials.

But again, these officials would have no sinecure. Crime would perhaps be less, for some of the motives of crime we may suppose would pass away. But if Socialism were carried out with any fulness, there would be more contraventions. We see already new sins springing up like mustard—School Board sins, factory sins, Merchant Shipping Act sins—none of which I would be thought to except against in particular, but all of which, taken together, show us that Socialism can be a hard master even in the beginning. If it go on to such heights as we hear proposed and lauded, if it come actually to its ideal of the ant-heap, ruled with iron justice, the number of new contraventions will be out of all proportions multiplied.

A Society of Ants

Take the case of work alone. Man is an idle animal. He is at least as intelligent as the ant; but generations of advisers have in vain recommended him the ant's example. Of those who are found truly indefatigable in business, some are misers; some are the practisers of delightful industries, like gardening; some are students, artists, inventors, or discoverers, men lured forward by successive hopes; and the rest are those who lived by games of skill or hazard—financiers, billiard-players, gamblers, and the like. But in unloved toils, even under the prick of necessity, no man is continually sedulous.

Once eliminate the fear of starvation, once eliminate or bound the hope of riches, and we shall see plenty of skulking and malingering. Society will then be something not wholly unlike a cotton plantation in the old days; with cheerful, careless, demoralised slaves, with elected

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overseers, and, instead of the planter, a chaotic popular assembly. If the blood be purposeful and the soil strong, such a plantation may succeed, and be, indeed, a busy ant-heap, with full granaries and long hours of leisure. But even then I think the whip will be in the overseer's hand, and not in vain. For, when it comes to be a question of each man doing his own share or the rest doing more, prettiness of sentiment will be forgotten.

To dock the skulker's food is not enough; many will rather eat haws and starve on petty pilferings than put their shoulder to the wheel for one hour daily. For such as these, then, the whip will be in the overseer's hand; and his own sense of justice, and the superintendence of a chaotic popular assembly will be the only checks on its employment. Now, you may be an industrious man and a good citizen, and yet not love, nor yet be loved by Dr. Fell the inspector. It is admitted by private soldiers that the disfavour of a sergeant is an evil not to be combated; offend the sergeant, they say, and in a brief while you will either be disgraced or have deserted. And the sergeant can no longer appeal to the lash. But if these things go on, we shall see, or our sons shall see, what it is to have offended an inspector.

This for the unfortunate. But with the fortunate also, even those whom the inspector loves, it may not be altogether well. It is concluded that in such a state of society, supposing it to be financially sound, the level of comfort will be high. It does not follow: there are strange depths of idleness in man, a too-easily-got sufficiency, as in the case of the sago-eaters, often quenching the desire for all besides; and it is possible that the men of the richest ant-heaps may sink even into squalor. But suppose they do not; suppose our tricksy instrument of human nature, when we play upon it this new tune, should respond kindly; suppose no one to be damped and none exasperated by the new conditions, the whole enterprise to be financially sound—a vaulting supposition—and all the inhabitants to dwell together in a golden mean of comfort: we have yet to ask ourselves if this be what man desire, or if it be what man will even deign to accept for a continuance.

It is certain that man loves to eat; it is not certain that he loves that only or that best. He is supposed to love comfort; it is not a love, at least, that he is faithful to. He is supposed to love happiness; it is my contention that he rather loves excitement. Danger, enterprise, hope, the novel, the aleatory, are dearer to man than regular meals. He does not think so when he is hungry, but he thinks so again as soon as he is fed; and on the hypothesis of a successful ant-heap,

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he would never go hungry. It would be always after dinner in that society, as, in the land of the Lotus-eaters, it was always afternoon; and food, which, when we have it not, seems all-important, drops in our esteem, as soon as we have it, to a mere prerequisite of living.

Incentives Needed

That for which man lives is not the same thing for all individuals nor in all ages; yet it has a common base; what he seeks and what he must have is that which will seize and hold his attention. Regular meals and weather-proof lodgings will not do this long. Play in its wide sense, as the artificial induction of sensation, including all games and all arts, will, indeed, go far to keep him conscious of himself; but in the end he wearies for realities. Study or experiment, to some rare natures, is the unbroken pastime of a life. These are enviable natures; people shut in the house by sickness often bitterly envy them; but the commoner man cannot continue to exist upon such altitudes: his feet itch for physical adventure; his blood boils for physical dangers, pleasures, and triumphs; his fancy, the looker after new things, cannot continue to look for them in books and crucibles, but must seek them on the breathing stage of life.

Pinches, buffets, the glow of hope, the shock of disappointment, furious contention with obstacles: these are the true elixir for all vital spirits, these are what they seek alike in their romantic enterprises and their unromantic dissipations. When they are taken in some pinch closer than the common, they cry, "Catch me here again!" and sure enough you catch them there again—perhaps before the week is out. It is as old as *Robinson Crusoe;* as old as man. Our race has not been strained for all these ages through that sieve of dangers that we call Natural Selection, to sit down with patience in the tedium of safety; the voices of its fathers call it forth.

Already in our society as it exists, the bourgeois is too much cottoned about for any zest in living; he sits in his parlour out of reach of any danger, often out of reach of any vicissitudes but one of health; and there he yawns. If the people in the next villa took pot-shots at him, he might be killed indeed, but so long as he escaped he would find his blood oxygenated and his views of the world brighter. If Mr. Mallock,[2] on his way to the publishers, should have his skirts pinned to the wall by a javelin, it would not occur to him—at least for several hours—to ask if life were worth living; and if such peril were a daily matter, he

[2]Editor's Note: William Hurrell Mallock, 1849-1923, was an English theological and sociological writer whose works included *Is Life Worth Living?*

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would ask it nevermore; he would have other things to think about, he would be living indeed—not lying in a box with cotton, safe, but immeasurably dull.

The Glory of Contest

The aleatory, whether it touch life, or fortune, or renown—whether we explore Africa or only toss for halfpence—that is what I conceive men to love best, and that is what we are seeking to exclude from men's existences. Of all forms of the aleatory, that which most commonly attends our workingmen—the danger of misery from want of work—is the least inspiriting: it does not whip the blood, it does not evoke the glory of contest; it is tragic, but it is passive; and yet, in so far as it is aleatory, and a peril sensibly touching them, it does truly season the men's lives. Of those who fail, I do not speak—despair should be sacred; but to those who even modestly succeed, the changes of their life bring interest: a job found, a shilling saved, a dainty earned, all these are wells of pleasure springing afresh for the successful poor; and it is not from these but from the villa-dweller that we hear complaints of the unworthiness of life.

Much, then, as the average of the proletariat would gain in this new state of life, they would also lose a certain something, which would not be missed in the beginning, but would be missed progressively, and progressively lamented. Soon there would be a looking back: there would be tales of the old world humming in young men's ears, tales of the tramp and the pedlar, and the hopeful emigrant. And in the stall-fed life of the successful ant-heap—with its regular meals, regular duties, regular pleasures, an even course of life, and fear excluded—the vicissitudes, delights, and havens of to-day will seem of epic breadth.

This may seem a shallow observation; but the springs by which men are moved lie much on the surface. Bread, I believe, has always been considered first, but the circus comes close upon its heels. Bread we suppose to be given amply; the cry for circuses will be the louder, and if the life of our descendants be such as we have conceived, there are two beloved pleasures on which they will be likely to fall back: the pleasures of intrigue and of sedition.

In all this I have supposed the ant-heap to be financially sound. I am no economist, only a writer of fiction; but even as such, I know one thing that bears on the economic question—I know the imperfection of man's faculty for business. The Anarchists, who count some rugged elements of common-sense among what seem to me their tragic errors, have said upon this matter all that I could wish to say, and condemned

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beforehand great economical polities. So far it is obvious that they are right; they may be right also in predicting a period of communal independence, and they may even be right in thinking that desirable. But the rise of communes is none the less the end of economic equality, just when we were told it was beginning.

Communes at War

Communes will not be all equal in extent, nor in quality of soil, nor in growth of population; nor will the surplus produce of all be equally marketable. It will be the old story of competing interests, only with a new unit; and, as it appears to me, a new, inevitable danger. For the merchant and the manufacturer, in this new world, will be a sovereign commune; it is a sovereign power that will see its crops undersold and its manufactures worsted in the market. And all the more dangerous that the sovereign power should be small. Great powers are slow to stir; national affronts, even with the aid of newspapers, filter slowly into popular consciousness; national losses are so unequally shared that one part of the population will be counting its gains while another sits by a cold hearth. But in the sovereign commune all will be centralised and sensitive.

When jealousy springs up, when (let us say) the commune of Poole has overreached the commune of Dorchester, irritation will run like quicksilver throughout the body politic; each man in Dorchester will have to suffer directly in his diet and his dress; even the secretary, who drafts the official correspondence, will sit down to his task embittered, as a man who has dined ill and may expect to dine worse; and thus a business difference between communes will take on much the same colour as a dispute between diggers in the lawless West, and will lead as directly to the arbitrament of blows.

So that the establishment of the communal system will not only reintroduce all the injustices and heartburnings of economic inequality, but will, in all human likelihood, inaugurate a world of hedgerow warfare. Dorchester will march on Poole, Sherborne on Dorchester, Wimborne on both; the waggons will be fired on as they follow the highway, the trains wrecked on the lines, the ploughman will go armed into the field of tillage; and if we have not a return of ballad literature, the local press at least will celebrate in a high vein the victory of Cerne Abbas or the reverse of Toller Porcorum.

At least this will not be dull; when I was younger, I could have welcomed such a world with relief; but it is the New-Old with a vengeance, and irresistibly suggests the growth of military powers and the foundation of new empires.

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Thomas W. Hazlett

The SUCCESS of failure

WITHOUT FAILURE we'd be in big trouble.

"Learning from our mistakes" is far more than a worn cliche, it is the gateway to an enormous truth about our entire economic system. Only by allowing our failures to run their due course may we ever chance to come by better ways of providing for our desires.

So much of the discussion of "failure" has turned to the mere exchanging of shibboleths. Everyday discourse is loaded with paeans to braving the chances for failure, accepting great challenges, the noble nature of "sink or swim," and warnings that "nothing ventured, nothing gained." There seems to be an instantaneous acceptance that individuals must, in their private affairs, be willing to risk something to make a showing in life. Not many would hedge on the idea that, if you take away the chance to flop, you simultaneously withdraw the opportunity to soar.

Yet, in extending this simple morality to larger spheres, there looms a dichotomy. While the challenge of life's game is hearty for the individual soul, the goal of social institutions is to demolish all possible exceptions to a pre-programmed "success." Security, the professed aim of scores of government programs, seeks to place a prohibition on all deviations from the politically-determined "success norm."

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Now, from the individual's perspective, security is a decent sort of thing to strive for and a happy one to achieve. People who are far from being millionaires take reasonable measures to enhance their own security by purchasing insurance, getting an education (read: income security), joining a union, working on a contractual basis, getting married and, let's not forget, having children (could we call this a form of genetic social security?).

The distinctive characteristics of "private" security are that a person acts either to "pool" his risks voluntarily with others, as in buying insurance, or he takes positive action to lessen the uncertainty surrounding his circumstances, as in gaining an education. "Public" security will be pursued from a diametrically different angle: simply shifting the burden of failure from one group to another.

Forcibly Shifting the Burden

If we look at any government bureaucracy we can see the nature of the problem. When the government establishes "job security" via tenure rules (accompanied by cost-of-living escalators) the government is not "pooling" the risks of the workers nor is it taking positive action to reduce the uncertainty confronting the work force. It is forcibly transferring risks of failure from one group (government workers) to another group (private sector workers).

Now, from a moral view, this is a nasty break for the latter; the so-called civil servants are neither very servile nor very civil for inflicting this injustice. But this is only the visible damage of the deal. The most pernicious effects are to be found in the economic results of this redistribution of risk.

Just as a man can only find success by winding his way through—and past—failure, an economic system must depend on its failings to signal its path of success. This process is certainly more important for our system as a whole for, whereas a man may follow the examples of those who have gone before, a system has no model to emulate. It must break its ground in darkness.

Economic failings include many distasteful possibilities: people getting fired or laid-off, companies or individuals going bankrupt, product lines being discontinued, capital lying idle, stock equities falling in value, ad infinitum. All such disturbances are the result of some miscalculation in the plans of the economy's agents. People, businesses and governments cannot foresee the future, and so every unexpected change in our circumstances—even if it is, on the whole, a very favorable one—will cause some people to end up in less fortunate conditions than they had anticipated.

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Change May Be Painful

Even when our society eagerly greeted the innovation of the automobile, for example, there were the poor blacksmiths being thrown out of work. And, in a recent movie, Woody Allen reminisces about an entire family that was wiped out by the introduction of automatic pinsetters. And, just as we pray for the cure for cancer, we know that, when it comes, we will see some bad economic news for the cobalt radiation industry.

These economic "failings" are tremendously important clues that, far from being swept under the rug, should be utilized as efficiently as possible for the value they contain. This value is both informational and motivational. It is the economic failure that allows us to *see* our mistakes and motivates us to *correct* them.

Failures are the "symptoms" of the economic organism. As the body of any living thing locates and cures its maladies by responding to its itches, aches and throbs, so the economy must behave to adjust to its unemployments, malinvestments and inefficiencies. Professor Axel Leijonhufvud discusses this organistic parallel by citing a biologist's description of a biological system:

> An *organism* is an integrated unit of structure and functions. In an *organism*, all *molecules* have to work in harmony. Each *molecule* has to know what the other *molecules* are doing. Each *molecule* must be able to receive messages and must be disciplined enough to obey orders. How has the *organism* solved the problem of inter*molecular* communication?

Professor Leijonhufvud suggests that, in the above passage, we simply substitute the word "economy" for "organism" and the word "transactors" for "molecules." Re-read the passage this way.

Thus, do we arrive at the essence of the co-ordination problem.

Adjust or Perish

If a living organism attempted to ignore certain biochemical signals it would soon degenerate into multitudinous plagues and perish. And when an economic system fails, as Prof. Leijonhufvud is fond of saying, to "mend its ways" in response to signs of ill health, it will likewise degenerate into economic anemia and witness economic diseases immensely greater in magnitude than the initial symptoms.

The ease with which our society has let this helpful analogy slip past is demonstrated by the single statistic that, for all of 1977, for all of the federal government, just 223 workers were fired. Out of two million federal job-holders, that represents about one out of every ten thousand employees. You'd probably have a better chance of being assaulted by a lightning bolt in Palm Springs or of

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receiving Sophia Loren's phone number from Computer Date.

More than the lack of individual failure in government is the absence of any way for departments and agencies of government to fail. When a public bureaucracy falls short of some assigned goal it is not driven to a cheap merger or bankruptcy as in the "ruthless" competition of the market place. Indeed, gross failures on the part of particular bureaucracies often send out enormously beneficial signals for the individual bureaucrats.

Witness the incredible failure of the Federal Energy Administration. Founded as a "temporary" agency to cushion the effects of the Arab oil embargo in 1973-74, the Agency was given the goal of Project Independence. The idea was to lessen oil imports over the years until, by 1985, we were to be completely—and patriotically—self-sufficient in energy.

The FEA went about this goal in rather bizarre fashion. It promptly slapped a "crude-oil equalization" tax on domestic producers, and used the resultant revenues to subsidize oil imports. But, let us not quibble over methodology, let us simply look at the results. When the FEA was born in 1973, the U.S. imported ⅓ of its oil; today we import ½.

By 1976 the President's Task Force on FEA Regulations was led to conclude:

> FEA regulations, as they now exist, confer few if any benefits upon the public. . . . In return for this lack of benefits and sense of false security, the American businessman, the taxpayer, and the petroleum consumer, must incur higher costs than might otherwise be the case. Indeed, continuation of the present regulatory mechanism will result in long-run inefficiencies for the American economy.

Failure may not come in a more plainly marked wrapper than the Federal Energy Administration. So how does the government cleanse us of the FEA burden? By exponential expansion!

Bureaucratic Growth

In 1977 the FEA opened its new offices with "Department of Energy" on the marquee. It has now attained full cabinet rank and boasts 20,000 full-timers "economizing" our energy with a ten billion dollar budget. Apart from its institutional successes, FEA officionados have scored well. The Agency's first director went on to become Secretary of the Treasury, the second has gone on to an esteemed academic post, and the third and present director, now a cabinet member, sits at the right hand of our President.

In contrast to the artificial serenity of the public sphere, there were over 200,000 bankruptcies, individual and corporate, in 1977 and several millions of workers were forced to switch jobs in the private sector.

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As much as we would like to minimize such disruptions and failures (particularly the bankruptcy figures which are influenced by laws extremely generous to defaulters), we do not want to eliminate real errors of judgment and competence by "assuming them away." We want to "bleed" our system, purge the failing, and find a better way tomorrow.

Government bureaucracy has delivered a Brave New World to its protected clients: do not fear the future for it contains no failure. The job security of the public sector precludes any adjustment process whereby we purge the bad and try something new. "Government without failure" can only bring about "institutions without success."

Upon reflection, when *was* the last time that a government bureaucracy was closed and cleared away due to its failing to meet the needs of the consumers? The private market place displays a veritable barrage of such leapfrogging, with bankruptcies, mergers, corporate takeovers and shake-ups, proxy fights, "inside information" and all the "ravages" of "dog-eat-dog" competition. Yet it is this constant, relentless panic to discover today's failure and to gobble it up at a bargain price that promotes an incessant tendency toward most efficiently reaching for the consumer's dollar.

The Test at the Market

To illustrate the respective mechanisms of the market and the bureaucracy, it is interesting to review the *Wall Street Journal* on any given day. Look at the incredible information just on the stock market alone. Here we have the relative values, as judged by millions of traders, of the earning power of thousands of companies. A mistake (or unsolicited disaster) accruing to any of these firms reflects itself to the entire market in the price of the stock in a matter of—amazingly—seconds. No government study. No environmental impact statement. No six-year lawsuit. A private company can flunk the market test in seconds.

Look around the rest of the *Journal*. Articles on quarterly earnings reports, new product lines, management personnel shuffles, changes in corporate profit strategies, in technologies, in marketing techniques. All are based on the quest of private persons to meet the challenge of market competition, to best deliver the stockholders the highest sales at the lowest cost. In other words, to avoid flunking that market test. And here there is no room for pontification. Speech writers don't produce profit statements—accountants do.

The state has no room, no need, and no desire for a competitive test of its economic programs. Its moti-

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vation is to gain *political* efficiency, and this brand of activity takes on characteristics quite distinct from those required for *economic* efficiency. The appeal of the market solution is that, in the famous words of Adam Smith, each individual "neither intends to promote the public interest, nor knows how much he is promoting it . . . he intends only his own gain and he is in this . . . led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it."

The Political Test

Conversely, the drive for *political* efficiency can result in the most wasteful and fraudulent of activities and may foster the emergence of regimented, bureaucratic systems which are totally unresponsive to the public and which suffocate our spontaneous forces for creativity. As Professor Milton Friedman comments on the inverse of Smith's economic "invisible hand":

> The invisible hand in politics is as potent a force for harm as the invisible hand in economics is for good. In politics, men who intend only to promote the public interest, as they conceive it, are "led by an invisible hand to promote an end that was no part of their intention." They become front-men for special interests they would never knowingly serve. They end up sacrificing the public interest to the special interest, the interest of consumers to that of producers, the interest of the masses who never go to college to that of those who attend college, the interest of the poor working-class saddled with employment taxes to that of the middle class who get disproportionate benefits from social security, and so on down the line.

The rewards of success can only be fully effective where the risks from failure are real. Success and failure must be two sides of an indivisible coin. And it is only when we toss this coin fairly, without precluding the chance it may come up tails, can we gain the knowledge to steer ourselves toward a better way of doing things. The game of life is, naturally, a trial and error process, and only by allowing ourselves to face our failings and to correct our bearings will we move progressively.

How Protectionism Betrays and Destroys the Individual

Some of our best emotions nudge us to fudge. We want to do whatever "must" be done to cover up the downside risks of contemporary society. But if we are loyal to these "best emotions" when it comes to our public institutions we may well betray our "best judgment." There is a most compelling argument against such state action to directly outlaw social problems. For by such "protectionism" we seal ourselves off from

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the phenomenal dynamism of individual initiative that will, when all is said and done, still be the attribute of man that brings home the bread. As F. A. Hayek reveals:

To the ambitious and impatient reformer, filled with indignation at a particular evil, nothing short of the complete abolition of that evil by the quickest and most direct means will seem adequate. If every person now suffering from unemployment, ill health, or inadequate provision for his old age is at once to be relieved of his cares, nothing short of an all-comprehensive and compulsory scheme will suffice. But if, in our impatience to solve such problems immediately, we give government exclusive and monopolistic powers, we may find that we have been short-sighted. If the quickest way to a now visible solution becomes the only permissible one and all alternative experimentation is precluded, and if what now seems the best method of satisfying a need is made the sole starting point for all future development, we may perhaps reach our present goal sooner, but we shall probably at the same time prevent the emergence of more effective alternative solutions. It is often those who are most anxious to use our existing knowledge and powers to the full that do most to impair the future growth of knowledge by the methods they use. The controlled single-channel development toward which impatience and administrative convenience have frequently inclined the reformer and which, especially in the field of social insurance, has become characteristic of the modern welfare state may well become the chief obstacle to future improvement.

At bottom, the price of synthetic success today will surely be the loss of opportunity for authentic success tomorrow.

IDEAS ON LIBERTY

Legislated Security Is Bondage

THERE has never yet come down from any government any substantial improvement in the conditions of the masses of the people, unless it found its own initiative in the mind, the heart, and the courage of the people. Take from the people of our country the source of initiative and the opportunity to aspire and to struggle in order that that aspiration may become a reality, and though you couch your action in any sympathetic terms, it will fail of its purpose and be the undoing of the vital forces that go to make up a virile people. Look over all the world where you will, and see those governments where the features of compulsory benevolence have been established, and you will find the initiative taken from the hearts of the people.

SAMUEL GOMPERS, from an address to union members, December 5, 1916

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William H. Peterson

Time for Truth— *Time to Act*

Item: In 1977 Congress voted to increase Social Security payroll taxes. In 1978 this very same Congress seeks to roll back at least part of the increase.

Item: The Interstate Commerce Commission had on its books about 400,000 tariff schedules and 40 trillion rates telling the transportation industry what it might charge customers.

Item: A listing of all the *new* U.S. rules and regulations set in 1976 over business required 57,027 pages of fine print in the *Federal Register*.

Item: From 1955 to 1965 the money supply had grown at an annual rate of 2½ per cent. Since 1965 the money growth rate has averaged almost six per cent. The cost of living in each period, as measured by the Consumer Price Index, roughly rose apace.

Item: Government has long been usurping funds needed for private investment. Such investment in the U.S. in recent years, as a percentage of GNP, was the lowest of all industrialized nations, including the United Kingdom. At the same time approximately 70 per cent of the long-term capital funds available in private money markets was being borrowed by the Federal government and 80 per cent by government at all levels.

And so on ad infinitum.

This situation of government-gone-haywire—devastatingly detailed in William E. Simon's remarkable new book, *A Time for Truth* (Reader's Digest Press [McGraw-Hill Book Company, 1221

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Avenue of the Americas, New York, N.Y. 10036] $12.50)—brings to mind the observation of Thomas Paine that "government, even in its best state, is but a necessary evil; in its worst state, an intolerable one."

A time for truth? Indeed, *and* a time to act. Former Treasury Secretary Simon, now president of the John M. Olin Foundation, chairman of the National Energy Foundation, vice chairman of Invest-in-America National Council, and a trustee of Lafayette College and Georgetown University, tells why he came to write of America's descent into what Mises called "planned chaos":

> It is my intention in this book to communicate the wider perspective that I acquired so traumatically in Washington . . . the reason for discussing economic issues is not to inspire a national passion for bookkeeping, but to inspire a national awareness of the connection between economic and political freedom. The connection is real and unbreakable. To lose one is to lose the other. In America we are losing both in the wake of the expanding state.

The dual question posed by Mr. Simon is: How did we get into this mess, and how do we get out?

He's in a good position to answer the question. William Simon saw government at the highest policy-making level from the inside. He served as Secretary of the Treasury from 1974 to 1977. He also served as Deputy Secretary of the Treasury, 1973-74, and as chairman of the Economic Policy Board, the Federal Energy Office and the East-West Foreign Trade Board.

So, how does government act? Well, from this "Inside Washington" view of things, consider how government responded to the energy crisis, in particular to the Arab oil embargo in the wake of the Yom Kippur War in October of 1973. Suddenly America was cut off from Arabian oil. The crisis was real.

Typically, the government didn't act as much as it reacted. Congress demanded action. A centralized oil allocation process was quickly put together (Mr. Simon terms it a "disaster"). Oil price controls, already in place under President Nixon's "New Economic Policy" of generalized wage-price controls, were tightened (thereby compounding the crisis).

As head of a newly created Energy Policy Office, President Nixon appointed Colorado Governor John Love. But Governor Love on a weekend early in the crisis decided to go quail hunting with Interior Secretary Rogers Morton. Washington flipped. How could an energy czar attend to his pleasure when America was in dire straits of fast running out of oil? President Nixon dropped Governor Love like a hot potato and named William Simon as the new energy czar.

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Mr. Simon's free enterprise proclivities were manifest all right, but like King Canute he was unable to stop the interventionist tide. For example, in the face of media and political pressure for rationing, the President ordered rationing stamps printed and held in reserve. "Maybe that will shut them up," he told his energy czar.

But it didn't shut them up. Pressure increased for formal rationing, which the price-controlled oil-starved oil companies and gas stations practically resorted to anyway, pretty much without any specific government directive (though some states such as Oregon directed that motorists with even-numbered plates shop for gas on certain days of the week, and motorists with odd-numbered plates shop on other days).

Gas lines lengthened into two, three, four-hour waits. The centralized allocation system "kept falling apart." Parts of New Jersey suddenly went dry, for example, while other parts had plenty of gas. Palm Beach ran out of gas, while stations ten miles away were well supplied. Tempers frayed across the nation, while domestic supplies and exploration lagged (and lag still) in the face of price lids and environmentalist harassment, which continue to this hour.

In a domestic interlude, Mr. Simon tells how his wife Carol reacted to public criticism during the Arab embargo. She did not want to be recognized. She stopped using charge plates that carried the name William E. Simon. She skulked around in a shawl and dark glasses. One night when Mr. Simon came home late, Carol Simon, normally a loving and cheerful woman, sprang at him and shouted: "Do you know how long I waited in the line? You have to do something!" Energy czar Simon groaned, "Et tu, Brute?"

Mr. Simon admits that he was "a rotten bureaucrat," that he played the philosophically preposterous role of "William E. Simon, Invisible Hand," that Congress displayed "extraordinary irresponsibility" in serving as supposedly selfless all-wise economic planners.

He holds that today there is precious little public awareness of our flight toward destruction, toward what Mr. Simon calls "the New Despotism."

Is there a way out?

Yes. A widespread reaffirmation of freedom and free enterprise is the Simon way, i.e., a return to the religion of human liberty, a broad-based adherence to a set of guiding principles. Mr. Simon lays down those principles, one after the other:

- The overriding principle to be revived in American political life is that which sets individual liberty as the highest political value.

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• There must be a conscious philosophical prejudice against any intervention by the state into our lives, for by definition such intervention abridges liberty.

• The principle of "no taxation without representation" must again become a rallying cry of Americans. Only Congress represents American voters, and the process of transferring regulatory powers—which are a hidden power to tax—to unelected, uncontrollable, and unfireable bureaucrats must stop.

• A critical principle which must be communicated forcefully to the American public is the inexorable interdependence of economic wealth and political liberty.

• Bureaucracies themselves should be assumed to be noxious, authoritarian parasites on society, with a tendency to augment their own size and power and to cultivate a parasitical clientele in all classes of society.

• Productivity and the growth of productivity must be the *first* economic consideration at all times, not the last. That is the source of technological innovation, jobs, and wealth.

• This means that profits needed for investment must be respected as a great social blessing, not as a social evil, and that envy of the "rich" cannot be allowed to destroy a powerful economic system.

• The concept that "wealth is theft" must be repudiated.

• Conversely, the concept that the absence of money implies some sort of virtue should be repudiated.

• Similarly, the view that government is virtuous and producers are evil is a piece of folly, and a nation which allows itself to be tacitly guided by these illusions must lose both its liberty and its wealth.

• The "ethics" of egalitarianism must be repudiated. Achievers must not be penalized or parasites rewarded if we aspire to a healthy, productive, and ethical society.

• The American citizen must be made aware that today a relatively small group of people is proclaiming its purposes to be the will of the People. That elitist approach to government must be repudiated.

With a preface by Milton Friedman and a foreword by F. A. Hayek—both Nobel Laureates—this book is a roadmap charting a route away from tax-and-tax, spend-and-spend, cradle-to-the-grave *in*security. William E. Simon points the way to a critically needed American Renaissance. ⊕

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TWO PHILOSOPHIES OF MONEY

S. Herbert Frankel's book, *Two Philosophies of Money: The Conflict of Trust and Authority* (St. Martin's Press, 175 Fifth Avenue, New York, N.Y., 10010, 164 pp., $14.95), tells it all in the subtitle. It sounds simple, but the "all" it tells about involves nothing less than the whole subject of what is and what is not inalienable about individual human rights. This means that Professor Frankel is forced, willy nilly, into transcending ordinary economic categories. He deals with money as a symbol of deeper psychological and social attitudes. The nature of money is dependent on the nature of man, and at a time when men, over most of the earth's surface, aren't sure they have any rights of ownership at all, it is hardly cause for wonder that money, as a medium of facilitating exchanges of ownership, is subject to the most cavalier whims of politicians on the make.

Professor Frankel, in his introduction, quotes Henry Simons, who wrote some forty years ago that "we cannot get along . . . without some moral sanctions and mandates which politicians must obey in matters of finance." Since Simons' time the "moral sanctions and mandates" that were once taken for granted throughout Christendom have, along with the gold standard, been lightly tossed aside. But the attitude of the politicians toward money has been merely symptomatic of the change in the relationship of western peoples to government itself. If people really held to what Leonard Read calls the "freedom philosophy" (private property, free trade and carefully limited government) our money troubles would be largely confined to the difficulty of earning it, not with its integrity as a commercial lubricant and dependable store of value.

Our nineteenth-century forebears might have indulged in arguments

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about the relative value of gold and silver as backing for the printed forms of money, but they were generally agreed on the proposition that something hard, tangible and desirable in itself should be available to people if they were to transcend the awkward limitations of a barter economy. Remembering the days of Victorian stability, it is easy to say that we should go back to a metallic standard. So we should, but it is Professor Frankel's point that, even in the days of gold, there was a whole world of trust in which the metallic standard operated.

An Orderly Universe

Our nineteenth-century ancestors held predominantly to Lockean beliefs. They held that rights came from God as part of the natural order. The right to life presupposed the right to own property as a base for the cultivation of life-sustaining skills and for the provision for support in one's old age. And, in turn, the right to property involved the idea of contract, by which trading from a base, both for the short and the long term, could be made safe. Naturally the right to property extended to disposal and acquisition rights. Money was needed to introduce mobility into the Lockean system, and, for the sake of consistency, it was naturally assumed that money should be as subject to contractual stability as anything else.

The Lockean world involved trust in an order, with Ten Commandments morality taken for granted. Money was part of that order. When the order fell apart, money fell apart with it. Gold was repudiated only after men had ceased to believe in their Lockean rights.

Professor Frankel has discovered a far-seeking student of the moral basis of monetary order in the neglected figure of Georg Simmel, a German philosopher and sociologist whose *Die Philosophie Des Geldes,* or *Philosophy of Money,* appeared at the turn of the century. Simmel held that it was an illusion to suppose that money could stand outside the activities of people in "an empire of its own." It was nothing "outside the objects, services or rights to which it gives access." It had the power of being "incorporated in any future use that its possessor may desire to put it," but the "future use" presupposed the continuation of the moral order in which both the money and its contract-writing owner existed.

Simmel, one gathers from Professor Frankel's exposition of some concepts that are cloudy in their Hegelian formulations, believed in the liberation that came with the Lockean order. Men's possessions involved an extension of their individuality. Since money is "the most mobile of all kinds of properties," there is "a close interrelationship between the development of a

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money economy and the growth of the role of the individual and recognition which is given to him."

An Expression of Trust

As the guarantor of mobility and freedom, money, in its gold form, could hardly be called "barren." It was an expression of a society that held the individual in a certain regard. The individual, as a member of a society based on trust, was entitled to keep government, as his agent, at some distance. The distinction between society and the State, in the days which Simmel celebrated, was clear. The State did not create money, it merely functioned as the policeman who guaranteed that the people's gold or silver coins were of a certain weight and fineness. Money was a social product, dug in the original instance by individuals who got together to do the prospecting and to work the mines. The credit reared on the metallic base was a social expression of trust in people's promises to perform services, or to settle at agreed-upon moments in cash if that was desirable.

The Keynesians, with their flat belief that money is a creation of the State, have misread history. Unfortunately, they have succeeded in selling their fallacious idea to political majorities all through the western world. The majorities supinely accept the idea that money is simply a government-created tool of State action. This is a complete negation of the older idea, expressed by Simmel, that money is a symbol of social trust. "The two conceptions," says Professor Frankel, "are incompatible."

The Keynesian conception makes money the "capricious and uncertain . . . prey to conflicting and varying political objectives." There can be no "social trust" when the money supply is subject to the commandments of politicians seeking to further pet projects at the expense of wildly unbalanced budgets. Such budgets result in pyramids of unbacked government debt-tokens that, in turn, are "monetized" to the detriment of price levels throughout the economy.

The sour joke, is, of course, on the Keynesians. When price and wage controls come, the politicos may think they can force their ideas of value on people. But, short of bayonets on every street corner and spies in every shop, this is impossible. The State's *fiat* can only go so far—even the circulation of inflated paper money depends on some remnant of Lockean trust. When the last remnants of trust are withheld, the Keynesians depart. Then the Leninists take over, money is abolished save as tokens of accountancy in State rationing, and the mobile society of the Lockeans gives way to the serfdoms that already encumber most of the world.

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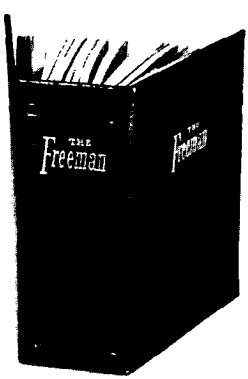
ECONOMICS: PRINCIPLES AND POLICY FROM A CHRISTIAN PERSPECTIVE
by Tom Rose
(Mott Media, Box 236, Milford, Michigan 48042, 1977)
380 pages $9.95

Reviewed by Brian Summers

THIS is an introductory text in economics written from a fundamentalist Christian point of view. The style is very readable, as the author explains basic economic concepts and uses them to defend the free market profit and loss system.

If there is a criticism to be made of Professor Rose's book, it is his tendency to view economics as an empirical science—despite his references to Ludwig von Mises. He also relies somewhat on mathematical demonstrations, of the sort currently favored in academic circles. This is particularly evident in his chapter on competition, which he views in terms of market structure, rather than as a process taking place over time.

On balance, however, this book has much to offer, especially to those involved in Christian schools.



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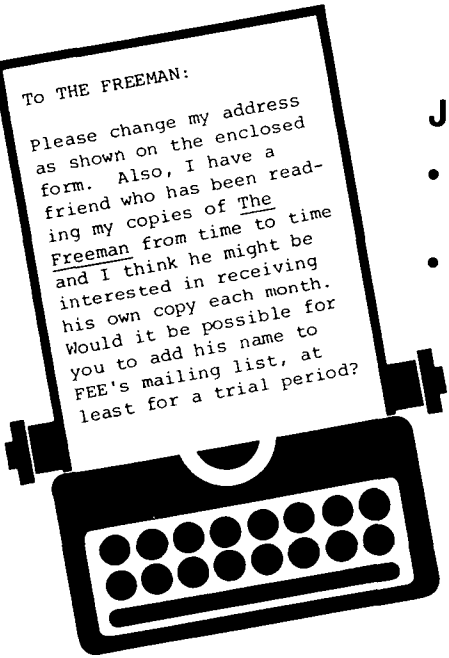
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